BEFORE THE WESTERN AUSTRALIAN INDUSTRIAL RELATIONS COMMISSION

APPL 1 of 2018

BETWEEN

COMMISSION'S OWN MOTION

Applicant

v

(NOT APPLICABLE)

Respondent

2018 STATE WAGE ORDER PURSUANT TO SECTION 50A OF THE ACT

TRANSCRIPT OF PROCEEDINGS

AT PERTH ON WEDNESDAY, 23 MAY 2018, AT 10:32 AM

COMMISSION IN COURT SESSION

CHIEF COMMISSIONER P E SCOTT
SENIOR COMMISSIONER S J KENNER
COMMISSIONER T EMMANUEL
COMMISSIONER D J MATTHEWS

MR B ENTREKIN appeared on behalf of the Honourable Minister for Commerce and Industrial Relations

MR K BLACK appeared on behalf of the Chamber of Commerce and Industry of Western Australia (Inc)

DR T DYMOND appeared on behalf of UnionsWA

MR C TWOMEY appeared on behalf of the WA Council of Social Service

SCOTT CC: Good morning. Please sit down.

Now we'll have appearances please. Mr Entrekin?

ENTREKIN, MR: May it please the Commission, my name is Brendon Entrekin. I appear on behalf of the Minister for Commerce and Industrial Relations.

SCOTT CC: Thank you.

Mr Black?

BLACK, MR: If the Commission pleases, Keith Black. I appear on behalf of the Chamber of Commerce and Industry of Western Australia.

SCOTT CC: Thank you.

Dr Dymond?

DYMOND, DR: May it please the Commission, Tim Dymond appearing for UnionsWA.

SCOTT CC: Thank you.

And Mr Twomey?

TWOMEY, MR: Yes, Chris Twomey, appearing for the WA Council of Social Services.

SCOTT CC: Thank you.

Now, I note for the record that we have received - in addition to the submissions filed by those present, we have received a number of other submissions which have been posted on the Commission's website and which I note that a number of you in your submissions have commented on, so we will take account of those submissions also.

And other than that, over to you, Mr Entrekin.

ENTREKIN, MR: Thank you, Chief Commissioner.

If it pleases the Commission in Court Session, we'll begin the presentation by our witness with the Department of Treasury on the economic outlook for Western Australia.

SCOTT CC: Thank you.

ENTREKIN, MR: This will be followed by an opportunity for questions. I will then briefly summarise the Minister's position outlined in the submission and submission in reply filed on 15 and 18 May respectively. If it pleases the Commission, I now call Mr Christmas to the witness box.

SCOTT CC: Thank you.

CHRISTMAS, DAVID BRIAN: affirmed:

EXAMINATION-IN-CHIEF BY MR ENTREKIN:

SCOTT CC: Good morning, Mr Christmas. Please sit down.

ENTREKIN, MR: Mr Christmas, will you please state your full name and position at the Department of Treasury?---David Brian Christmas. I'm the Director of Economic and Revenue Forecasting.

And Mr Christmas, can I confirm that you've made a witness statement as part of these proceedings?---I have.

Good. And is the original one the one you have got with you in the witness box?---I do have it here, yes.

And Mr Christmas, your witness statement states that you and your colleagues at the Department of Treasury have prepared the Economic Outlook document submitted as attachment A, the Minister's primary submission. Is that correct?---It is.

Right.

If it's convenient at this point, Chief Commissioner, I seek to tender the PowerPoint presentation that Mr Christmas will speaking to today.

SCOTT CC: Well, perhaps we can have it as exhibit Minister 1, the witness statement of David Christmas, the attachment A to your submission, the 2018 State Wage Case Economic Outlook.

EXHIBIT MINISTER 1 Applicant DATE unspecified
Witness statement of David Christmas.

SCOTT CC: And as exhibit 2, the PowerPoint presentation. All right. Thank you.

EXHIBIT MINISTER 2 Applicant DATE unspecified
PowerPoint presentation.

ENTREKIN, MR: Perhaps copies of the PowerPoint presentation - - -

SCOTT CC: We have copies of it.

ENTREKIN, MR: You have copies?

SCOTT CC: Thank you. Yes.

ENTREKIN, MR: Happy to give these to the Section 50 parties.

Thank you.

Thank you, Mr Christmas.

Could you please take us through your presentation?---Thank you. Commissioners, today I'd like to present the outlook for West Australian commonly as summarised - based largely in the recent 2018/19 Budget that was released on 4 May this year, and I'll cover elements of what was mentioned in the Commonwealth's Budget as well, which was released on 28 May - sorry, 8 May this year. So after going from a very rapid pace for a decade, in more recent years the West Australian economy has closed, and in fact in 2016/17 GSP declined, contracted by 2.6 per cent. That's the first time that's occurred based on the current estimates of GSP, which commenced in 1989/90. The moderation growth, which has been evident over several years, is primarily due to the softness in the domestic economy, where - and primarily due to declines in business investment. However, there has also been weak outside consumption. The dwelling investment has fallen as well. That did flow through to the labour market and employment levels actually fell in 2015/16 and 16/17. The unemployment rate increased in that period and the wages growth has been, and remains, weak, while the domestic economy is expected to contract marginally in 2017/18 and 2018/19 we are seeing encouraging signs. For example, annual average employment has been growing since September 2017 underpinned by increases in fulltime employment. Business and consumer confidence, ah, have been higher in the March quarter, but we've got some time. The State's economy is expected to rebound, growing by, ah, modestly by 2.5 per cent in the current coming year, current year and expand thereafter. But before going into the detail of the WA economy, I'll just go briefly to the global and national context. So in its April 2018 world economic outlook, the International Monetary Fund is projecting the global economy will expand by 3.8 per cent in 2017, up from 3.2 per cent in 2016, with growth forecast at 3.9 per cent in 2018 and 2019. After that, it's expected to trim down slightly to about 3.7 per cent in 2013. WA's major trading partners collectively grew by 5 per cent, so our trading partners grow faster than the rest of the world collectively, and growth is projected to decrease 4.8 per cent in 2018 and to moderate to 4.1 per cent in 2023, currently 2023. A steady easing in growth is largely due to anticipated slowing of growth in China, which the IMF is forecasting will slow from 6.9 per cent in 2017 to 5.5 per cent in 2023. That forecast change is largely attributed to the slower property construction cycle and macroeconomic policies becoming less complicated now that the five-year leadership reshuffle is complete and presidential term limits have been removed.

SCOTT CC: There have been some concerns about the situation in China over the last five years or so, when before that it was going very strongly, and there were concerns for risking Western Australia. That's not come to pass, more moderated than - - -?---Yes. So far, the official stats all say that China has been growing at a solid pace. If you look at some other indicators, you can see a bit of a cycle going on, but yes, overall, we - it's been very good for West Australia and our exports, particularly iron ore, have been ramping up solidly, so on a volume - the demand for our export basis, China has been a good story us, and the official stats, which are - it's been very good. There's always residual risk - - -

Yes?--- - - - and we continue to believe there's risks. A lot of that growth in China has been driven by debt, debt on investment, and at some point - you can't keep doing that. So for us, commodity price is obviously very important. The iron ore price has been a key part of that. The commodity price index, in terms of if you average them out, the fact that we've sort of stabilized after declining in that period around 2014/15, and in fact it's actually increased modestly since troughing about 18 months ago.

The iron ore price, which is the key component there, in 2017/18 is expected to average about 68.3. That follows a price of 68.8 in 2016/17, an average price that is. There is still a lot of volatility, so - from month to month, and over the year you do find some volatility. So, for example, over the year to date, commodity - the key iron ore index, which is what we base our price assumptions on, has varied between $57.40 and 79.95, so there's a bit of variance, but it's actually, in terms of our forecast, stabilized. There has been a bit of a decline we forecast over the out years and that's - well, basically, we're expecting iron ore prices to fall to around the 60 to 63-dollar range, and within that period there will be some variance. That's just the nature of the cycle. The gold price over the last 18 months has been increasing, and that has also supported the commodity price index. So we're expecting, in US dollar terms, a steady increase from a price of 1,258 US dollars per troy ounce in 2016/17 to about $1,479 a troy ounce in 2021/22.

KENNER SC: Is lithium going to be the next big thing in the market?---Certainly, lithium looks like it. There's a large number of projects under consideration right now, worth - almost $7 billion worth of value, ah, and just the other day there was an expansion of what is already the world's largest lithium mine, the Greenbushes mine - I think they're touting something like 600 million more. Now, that's yet to receive a final investment decision, but that's what the reported value is.

Thank you?---The Aussie dollar has actually - I suppose that's been increasing very slightly but, you know, it's sort of varying around the 75 per cent mark for the last couple of years. Probably a little - it's softened since the start of the year and a lot of that's to do with expectations around price, you know, interest rate rises from the US relative to interest rate rises here. That said, it's around 75 anyway. Just going into the national economy, the Australian economy, as forecast by the Commonwealth Treasury, it's expected to grow by 2.75 per cent in 2017/18 after expanding by 2.1 per cent in 2016/17. As such, growth is expected to remain below the 3 per cent per annum, but the projection period has it going at 3 per cent per annum by the end of the fore - Budget Forecast. There's the increase in the rate of growth. Growth is expected to be supported by increased exports, high consumption, growth in non-mining investment, and a reduced drag from our mining - mining investment. Nationally, employment growth has been solid, increasing by 2.9 per cent in annual average terms to April 2018. Employment is forecast to grow by 2.75 per cent in 2017/18, and then to ease to 1.5 per cent in 2018/19. That said, the Commonwealth does expect the pace of growth, employment growth, to be sufficient to result in a grad - in an easing of the unemployment rate to 5 per cent by the end of the budget period. One of the reasons - one of the supports, I suppose, that the Australian economy has had is the fact that the RBA has kept a target - its target cash rate at 1.5 per cent since August 6 - 2016, so for a sustained period, which obviously would be seen as an expansionary rate, given it's so low. Turning to the West Australian economy, as I note in my opening remarks, over the - over the decade to 2014/15, you know, a growth average around 5 per cent per annum. It's gone over 5 per cent per annum. But since then, and even in 2014/15, that started to sort of - that slowing trajectory you can see in the - on the chart there. Since - so in the last few years, it's been a period of below trend growth, as activity consolidates at the high level. West Australia's GSP, which - which captures both the domestic and the international, external sectors, as I mentioned before, contracted in 2016/17, and that followed very weak growth of 1 per cent in 15/16.

That fall was largely attributable to a substantial contraction in the domestic economy, that's the State Final Demand, decreasing by 7.5 - 2 per cent in 2016/17, and that was a result of even larger falls in business and dwelling investment. The contraction in domestic demand appears to have been - to have moderated over 2017/18 and is now projected to climb by just 0.25 per cent in both - - -

SCOTT CC: That dwelling investment's not a very significant component, is it?---No, it's not large. It's not large. Or - - -

And it's quite - and it's - after 16/17, it almost disappears?---Dwelling investments, it's about, I think, $9 billion of the economy.

Okay?---So it's not - it's big, but it's the whole - just because you're comparing it to the whole size of the economy.

Yes.

MATTHEWS C: Mr Christmas, if I may ask a question. In relation to Gross State Product, what kind of contribution do the agricultural sector make, in terms of comparison between past and current performance?---So I've just got a value share, a value add, here, of - what we've done here is exclude an industry that's called "Ownership of Dwellings", which is a - sort of a very nebulous sort of concept, as an industry. But if you exclude that, it's a - the share of value add is around 3.1. It was 3.3 per cent in 16/17. There hasn't been - - -

I was talking about the agricultural sector. Are we talking about the same thing?---Yes, agriculture, forestry and fishing as the share of the Western Australian economy, in - as measured by value add, and - we're really not excluding - I'm excluding the - how ownership of dwellings, which is seen as an industry in the ABS stats, plus some tax, taxes are taken away. So just share - share of value of all the industries that are standardised industries, it's 3.3 per cent in 2016/17.

So how is the agricultural sector going at the moment?---I think this - last year was a bit more challenging, so they had a very good year, and then they've had a softer year, and now I think - I think the outlook may be for a bit of a pickup. But it's not a sector that - it's not a large sector, as a proportion of the economy. That accounts for about 3.1 per cent of employment, so it's - it's not a - a very big sector. So basically, following the contraction that we've just seen, we expect the GSP to bounce back and grow by 2.5 per cent next year, and to increase to 3.25 and 3.75 the year - in the following years. SFD, which is why the domestic economy is expected to be very soft in, really, this year, in 2017/18, and 2018/19, but then to strengthen, and that's what you can see in this chart. This chart actually gives you a breakdown of it all. So over 2017/18 and 2018/19 investment will lay in a substantial drag before contributing again in 19/20. So there - it's really been the exports sector that's kept us growing, and this year, and next year, which I'll get to, is, you know, the ramp up in LNG. In terms of business investment, for the past decade, Australia's - there's - well, the profile of GSP growth has been largely influenced by trending investment. Following a lengthy period of strong growth, investment has fallen substantially from 80.5 billion to - in 2012/13 to 38.1 billion in 2016/17, as major projects have been progressively completed.

After declining for the past 4 years, we're expecting 2 more years of decline, and by the end of that we expect in 2018/19 investment will trough at $30 billion. Around 30 billion. We're expecting investment to fall by 28.9 - 5 per cent in 2016/17, well, that's an actual, with a decline of 7 per cent in 17/18, and an additional contraction of 14 per cent in 18/19. After that, we expect investment to resume growing, from 2019/20 onwards, in line with pre-boom average of around 6 per cent. The continued falls in business investment in the immediate term are largely attributable to the completion of the hook-up and Commission of LNG projects, particularly Prelude and Ichthys. In the long-term, investment will be supported by backfill investment, both in iron ore and in LNG, so there's several large - very large rewards in the iron ore sector, and we will have depleting - quite a depletion, and they do need replacement in the next few years. The biggest of those is Yandicoogina, BHP's Yandi mine, which is an 80 million tonne mine. However, both FNG and Rio as well will have other mines that are closing - will have - have to have replacement projects, and those are short of scheduled - those we're expecting to occur within - or start within this period and will be key to supporting our investment over this period. You may have seen a recent announcement, the Gorgon Stage 2, which is some additional wells, it's - that's also coming on. Well, I think they're still - that's scheduled to come on in the period, and we're aware that there might be some other LNG stuff that may or may not come. So that sort of gives that - that's why we think there's going to be a trough and then a bit of a lift in the year. Consumption, household consumption has been very soft. It grew by 1.3 per cent in 2017, lifting from 1.1 per cent in financial year 2016/17. Consistent with recent trends, growth has been supported predominantly by spending on non-discretionary goods and services, such as health, housing and food. Discretionary spending made its largest contribution to growth, annual growth, in more than 2 years in 2017, and you can see that little sliver of - of light blue, which is 0.1 per cent, those points, and that was in - underpinned by a lift in spending in hotels, cafes and restaurants. The slight improvement in discretionary spending coincides with a lift in consumer sentiment, which reached its highest levels in the 3-month average terms in more than 4 years in February, although there appears to be some soft link from that in March to May. But that's - that's the Westpac Melbourne Institute measure. The WA Chamber of Commerce and Industry March 2018 Consumer Confidence Survey reported short and medium term expectations for the State's economy were both at their highest levels in 4 years, so both those measures are saying there's been a pickup in confidence. And this chart - this chart shows annual average growth versus year ended growth in household consumption. We - the Treasury generally supports or uses annual average growth, because it's a smoother series, and it just shows you actually what's happened over the four quarters, but you do get a bit of an indication of what's happening using what we call year ended growth, so year ended growth - annual average growth would be the average of household consumption, let's say, 2017 compared to 2016, whereas year ended growth, the latest figure is December quarter, just one quarter, on the previous December quarter. And that, as you can see in this chart, tends to lead a little bit, and so the turning points, you - we often use as forecasts, as - those turning points, an indicator. So you can see that end - year ended growth being above annual average suggests that that will pick up a little bit, although you can see that it's not exactly overwhelming.

SCOTT CC: Still less than 2 per cent?---It actually reached 2.1 per cent. It's probably just because it's so far from the other axis.

KENNER SC: It looks like we're about 4 years away from returning to trend growth in consumption, roughly, on the - something like that?---Yes, if you - - -

4 per cent, if that's the trend, trend line?---If you look at the next chart, there, you can see that about actually - we're not expecting it to reach a long-term average.

Maybe even longer?---Yes, within the budget period. Consumption, you know, we are expecting it to pick up to 1.75 per cent in 2017/18, and so that's why that year ended number gives us a bit of confidence that that will be achieved, and then pick up to 2.25 per cent. Housing consumption is expected to strengthen to 3 in a quarter and then 3.5 per cent by the end of the - well, by 21/22.

MATTHEWS C: And did you know or think, Mr Christmas, whether household consumption is affected by paying down debt as opposed to household not having money?---We don't - I don't have solid statistics on that.

I left "Think" in there, if you want to respond to that?---Yes. Yes. What we did, the very limited measure we've got of - there's not a perfect savings rate measure at State level. There's a - the best we can do, we'd say that the rate of savings has declined slightly, so following the GFC, it went from - that indicator went from about 10 per cent to around low 20s, and now - now it's come - come down from about 24.5 in 2014/15 to about 21.2 per cent. So that would suggest there's a little bit of dissaving. Whether that's - you know, how that spending is being used is not something we have enough detail on. And unfortunately, because that includes what they call consumption of fixed capital, we can't be entirely confident. We can only use that as an indication, you know, of what might be happening. That said, you know, as the economy strengthens and the population growth increases, wages growth increase, and people are more certain about their employment prospects, together with the recent improvements, and - we do expect a lift in household consumption. Dwelling investment here - well, basically, total dwelling investment declined by 18 per cent in 2017, and that reflects declines in the two components of dwelling investment, new and used investment, which is what you see when a new house is being built, and alts and adds, which is used. We don't necessarily see - that's when you do an alteration, we don't actually add it back around into - yes, it might be - in some cases, you will see it, because it's something out the front, but you'd - yes. That - you can see, there's a drop in the level of investment from the budget estimates last year to now. That's all due to the way the - and ABS has advised the way it measures alterations and additions, and it actually resulted in alterations/additions value dropping from 3.7 billion to 3 billion in 2016/17. So those methodology changes can actually have a bit of an impact on the estimated levels of activity. That said, after slowing - so we're expecting dwelling investment to fall this financial year, 17/18, and then recover in 18/19, growing by 4.75 per cent, then 5.75 in 2019/20. There's some indicators that are sort of suggesting that the excess supply that are built up in the housing market is diminishing, so properties listed for rent and sale have been trending down over the past year, and rental vacancy rates dropped from - dropped 6.9 per cent in the September Quarter of 2017 to 5.1 per cent in the March Quarter this year. So that's quite a rapid decline. The value of residential construction finance grew by an annual average of 3.9 per cent in March, after falling by 1 point - 11.8 per cent in 2016/17, so there's been a turnaround in that finance.

What is - there's also been a turnaround in building approvals from - but that's still been - it's still contracting, but less - the contractions, let's say, it's - the shape is coming in the right direction, but obviously being negative just means we're watching that number very carefully. Beyond - - -

SCOTT CC: And that's a leading indicator that looks - a lag to - - -?---Yes, something like building approvals would be a leading indicator.

Yes?---Because the actual investment is the construction of the house. The reduction in the level of dwelling investment since the budget reflects - oh, I have already mentioned that. So beyond that, we're actually expecting growth rates to ease slightly, so from 5.75 down to about 2.25 in 21/22, and that's just because there - this lift that we're expecting in the next two years is occurring in a relatively balanced market, so you're not going to get out of kilter. So we're expecting a bit of a strengthening in it, and still to grow, but moderating. So a sort of very soft dwelling cycle, by historical standards. Putting those three private elements of State Final Demand together, we get a picture of what's happening in State Final Demand of the domestic economy, and so you're seeing that in 2017/18 and 2018/19, we're expecting just a shade under flat levels of activity, so negative 0.25 per cent each year, with investment being the main drag. And if that occurs, that will be the - you know, if our forecasts materialise, 2018/19 will be the sixth consecutive decline in the State's domestic activity. And while that's a strong - a long period of extended weakness, it does follow a very - a period of very strong growth as well. Going on to exports, the high level of investment is - is flowing and has been flowing through strong expansion in exports, so we are estimating they grew by 5.5 per cent in 17/18, underpinned by growth in LNG and iron ore. We're expecting that to grow to 7.5 per cent next year, as Wheatstone, which is another LNG project, has a - sort of really consolidates its ramp up, and then Prelude starts to export. Prelude is a floating LNG plant. It's actually still close to finalisation, but should start producing in the next year. In addition to the LNG ramp up there will be gold, iron ore and lithium expansions as well. The LNG is a big story, though. I mean, over the last three years, or the three years to 2019/20, LNG exports drew - expected to increase by about 7 per cent by then, so will account for around 10 to 15 per cent of global productions.

KENNER SC: That's a pretty massive story, isn't it, really?---It is.

Without that, it would be a different picture?---Yes. Yes. Very - a very different picture, both in the past, because the projects themselves are such high value, so the investment would have been lower in the past, yes. In the later years, we actually have investments storing off a lot, because here all our LNG and iron ore projects are basically operating at capacity, so. Population growth is very weak at the moment, so - after peaking at 3.1 per cent in 2012/13, or at the most recent peak, population growth slowed to 0.7 per cent in 2015/16 and has remained at that rate in 2016/17. These are the weakest rates of growth since at least the early 1980s, and I understand maybe since the Second World War. Population estimates are released with a significant lag, so the latest population data is to September Quarter 2017, in which - so in 2016/17, population grew by 0.7, and that tipped up to 0.8 in the year to September Quarter 2017. The main reason that's - it's so weak now is nat overseas migration to the State is - has fallen in the year to September Quarter 2017 to 13,800 persons, down from around 53,200 people in 2011/12.

So much - that decline's been very rapid, and what it's resulted in is our share of national overseas migration, nat overseas migration, falling to 5.5 per cent, well below our long run average of 13.5 per cent.

MATTHEWS C: Mr Christmas, what's going on in New South Wales that they can absorb - I imagine they are getting more migrants than they previously were. Assuming they will absorb it, and industry is performing at a level which allows them to have the lowest employment rate in the country, what is going so right for them over there that's not happened here?---Well, I mean, I think, for us, the story is because we're coming off a high base, and so growth was actually inevitably going to slow. Over there, look, I haven't tracked their economy particularly closely, but from what I hear there's a lot of construction and infrastructure investment happening. So the sale of some of their electricity assets as a result of a lot of infrastructure investment, if I'm honest, I think the Commonwealth thought it's going to be hydro and said - you know, off New South Wales and Victoria and said, well, you've got to use that money - we'll buy it on the condition you use it for infrastructure as well, so I think there's a bit of - fair bit of construction, and one of the - yes, a lot of infrastructure over east. So that - that's a potential pressure point, because there's so much happening now across the country.

Thank you?---Yes. And there's also a lot of people flowing from WA to the other States. That's 11,581 people in the year to September 2017. So both those - we - over time, we do expect a reversal, so we expect our share, national norm, to increase to 13.5 per cent. That was an extremely stable level prior to the boom, and so that together with a return to nat interstate migration to the State by - towards the end of the period means we have that growth profile that you can see there. The reason why we think nat interstate migration will start flowing back is because our domestic economy is forecasted to start growing at the same pace as the national, so you would expect a normalisation. Around the same pace. So going on to the labour market, monthly data is very volatile, and so one way of looking through that volatility is to look at growth in annual average terms. So annual average growth in employment will increase by 2.3 per cent in April 2018, and as you can see from this chart, that shows contributions to that growth, from fulltime and part-time, and the majority of that was part-time. Albeit you can see, just towards the end of that, the series we've got up on the screen, fulltime, the contribution from fulltime was - started to soften, and part-time is starting to pick up. Now, some of that, a proportion of that increase is likely to have been from the hook-up and Commissioning of the Prelude and Ichthys projects, and those projects are expected to be Commissioned pretty much any time soon. I think Inpex announced that their expectations are somewhere around April/May, I think they also suggest there might be a little bit delay to that, but both projects are imminently - are very close, a matter of months towards being completed. So we expect employment to fall - to grow by 2.25 per cent in 17/18, after falling by 2 - 0.9 per cent last year. That forecast for employment growth reflects strong growth in annual average terms, improvements in lead indicators of labour demand, and advice we get from industry consultations about hiring. So as this next chart will show you - sorry, the next chart does show you, internet vacancies have increased in the last 18 months. Department of Jobs and Small business data show that there - the number of internet vacancies was 17.6 per cent higher in March 2018 than the same time a year earlier.

And that's occurring at the same time as that business and - business confidence has been picking up as well, so both the NAB and the CCIWA surveys or measures are showing that business confidence is now around its highest level in seven years. Um, so all that sort of bodes well for a - a good - good employment then, I think. Ah, one of the, um - one of the interesting things about the Internet Vacancy data is that now, um, vacancies have increased in more than 60 per cent of occupations in the year to March. This next chart really is, erm - shows that despite the improved annual average growth, we do expect it to slow in 2018/19. And that's consistent with that lead indicator, the - the quarterly year ended growth leading annual average growth. Um, but the one - one of the main reasons we think it will slow from, um - er, to - to 1.5 per cent, er, in 2018/19 is because those LNG projects are - are coming to completion. And while there'll be an - yep, I'll leave it at that. Um, ah - - -

So - sorry - - -?--- - - - beyond - - -

- - - to jump in Mr Christmas?---Yep, yep, yep.

So going back to the - - -?---Yep.

- - - employment growth shown on page 10, where there was that big spike in early 2010 - if you've got it in paperwork in front of you it would help find - - -?---Yep, then I'll just go to that, yep.

- - - we've got paperwork - - -?---Yep, yep.

- - - too?---Yep, yep.

See that big spike in early 2010 - - -?---Um - - -

- - - in employment growth? It went from zero - - -?---Oh, is this in my - ah, the, ah, attachment A, was it? Or - - -

It's the PowerPoint, but it's page 10 of the PowerPoint, once it's printed out. The first - - -?---Oh, okay.

- - - graph under "Labour Market"?---Oh, okay. Er - - -

Yes, that one?---Yep.

So do you know then that that's not going to be repeated because you know there were projects driving that in 2010 that simply aren't - - -?---Yeah, so - - -

- - - on - that aren't planned at the moment? So you know that's not going to be repeated?---Ah, we're very confident we're not gonna get those levels again.

Yes?---Yeah.

Because the 2010 was based on projects that were either under construction or - - -?---Yes, and the - the size of those projects.

The size of the projects?---Ah, it's actually the - the - the size, yeah.

Okay, thank you?---Yeah. So around - er, and we had - in 2012/13, I think that was our record of investment, which was over 80 billion. We're not expecting an investment to come anywhere close to that.

Yes, okay?---Yep. Ah, oh, sorry. Well - well, this chart really just shows that after the 1.5 per cent, um, we are expecting employment again to - to resume, increasing in a - at a slightly faster pace. And that's just as the economy - economic, er, conditions improve and business investment starts to lift again. This - this chart here just shows the employment by industry in the year to February 2018, which is the latest data available. It's only published quarterly. Um, growth is being driven by - in a handful of industries clustered in the services sector, um, education and training, and health care and social assistance being key, as well as construction and, ah, agriculture, forestry issue.

SCOTT CC: Yet the retail trade, for example, is very subdued?---Ah, yes, that's - that's - that's correct. Well, mining - outside of, er, oil and gas, we'd probably expect a lift in mining in the coming years, simply because we're seeing - we're hearing that on the ground. Um, in - oh, er, the unemployment rate, um - so the monthly figures for the unemployment rate are volatile, and in our recent experience is - is a - a good example of this, with the unemployment rate increasing from 6.1 per cent in February to 6.9 per cent in March and down to 6.5 per cent. Ah, er, so again, that's one reason why we use the annual average. Ah, West Australia's unemployment rate was 6 per cent in April 2018 in annual average terms. Um, that's down from an unemployment rate of 6.2 per cent in 2016/17.

KENNER SC: Participation rates have an impact, don't they, on a short - - -?---They do.

- - - run basis?---They do.

And that's the difficulty with volatility?---Yeah, they're - they're - as you - as you say, they are also very volatile as well. Um, but the - but a lot of the, ah, lift in the unemployment recently is because of the - the increased - - -

Increased participation - - -?--- - - - participation - - -

- - - yes?--- - - - um, which is sort of consistent with an encouraged work ethic - - -

Well, that's a good story, isn't it - - -?---Yes - yeah.

- - - I suppose?---That's - that's correct. Er, um, and, oh, in annual average terms, aside from New South Wales, our - our annual average rate is sort of in the - in the range of other States, with Victoria at 5.8 and Queensland at 6.1. So - um, despite their marginal - despite, um, the marginal increase in the unemployment rate, um, in - in the last month or so, other measures of spare capacity in the labour market have been declining. So, ah, for example, underemployment rate has actually, um, fallen to 8.8 per cent in February. Um, and I'll get to the under - underemployment rate in a - in a minute. Er, um, we'll revisit that in the context of wage growth. Okay.

Um, in terms of the unemployment rate, we expect, ah, um - so the recent increases in the unemployment rate monthly have pushed up the annual average rate to 6.0 per cent in April 2018. Um, and reflecting, there - there is an upside risk to the unemployment rate forecast. We've got it at 5.75, but, um, there's a - a distinct possibility that the unemployment rate could be .25 per cent for - 2. - .025 percentage points higher than we forecast. So, er, possibly 6 per cent in 17/18. Ah, in 2018/19, the unemployment rate is forecast at 5.75 per cent, with progressive reductions on the rate to 5 per cent by 20 - mm, 21/22. And again, that's just reflecting our expectation of employment growth, um, pushing down the rate eventually. In terms of where, ah, the - the different cohorts do actually have different unemployment rates. So the unemployment rate in the year to March 2018 was 14 per cent for 15 to 24 year olds. Um, and - - -

SCOTT CC: We - - -?--- - - - that - - -

- - - did very well for a few years. What is it in these last two years that's been the difference?---Er, at one level, we can only, I suppose, speculate on that.

Yes?---Um, so it may reflect the nature of available jobs or firms having a preference for skilled labour, given that there's some slack in the market, choice of skilled versus non-skilled. But again, we'd only be - well, I don't have hard data on that.

Yes. Okay, thank you?---Ah, part - the part-rate, um, has been trending upwards recently and is expected to rise to 68.1 per cent in 2017/18, up from 67.3 per cent in 16/17. Ah, West Australia's - um, we're probably - yeah, our - our participation rate over the year to date has been a bit higher than, ah - at 68.2. So there's probably some upside risk that the part-rates are higher and, therefore, unemployment rates are consequently a bit higher. Um, and beyond that, we do expect some further increases, ah - ah, to 68.8 per cent in 2021, um, and levelling off roughly at that, at 68.7 in 2020. So just turning to wages, um, we do, er - while there's a number of indicators of wage levels or - ah, we can use them for wage growth, our preferred measure is the Wage Price Index. Um, and that's, I think, a generally viewed measure - ah - ah, best measure of underlying wage growth. Um, that's because it measures wage changes for a fixed quantity and quality of labour, thus abstracting from compositional changes in the labour market, such as hours worked or movements between industries. Um, and so our - this presentation will focus on WPI. Um, and the chart does show that, um, wages, as measured by WPI, are, um - are weak, but they - they appear to have stabilised. In fact, um, over the last four quarters, mm, er, quarterly growth in WPIs average .4 per cent per quarter, compared to the four - previous four quarters to March 2017, which was .3. So not a big difference, but it - it's showing in that marginal uptick in that annual average growth, mm, ah, blue line there. So forecast growth in 2017/18 of 1.5 per cent is only slightly higher than 1.4 per cent in, ah, 16/17, which was the lowest rate of growth over a financial year on - on the record. And real wages growth grew by .6 per cent in the year to March, ah, 2018, compared to .5 per cent in the year earlier. So the subdued rates of wages growth is consistent with weak domestic economic conditions and the presence of ongoing spare capacity in the labour market. Um, WA - - -

MATTHEWS C: The Reserve Bank continually says, does it not, that low wages growth is a problem for the economy.

Is that - - -?---Um, the - the bank has been saying that, ah, um - well, oh, people are interpreting - and the Governor's, I think, fairly careful how he says it, and I - I don't have his exact words in front of me, but basically, he's just saying that a - a little bit more wage growth would be a - a - a good thing.

Do you have good knowledge of the economic situation of the West Australian Government, Mr Christmas?---Sorry, Commissioner - - -

Sorry, do you have good knowledge of - - -?---Yeah.

- - - the economic conditions affecting the West Australian Government Budget? Is that something that you're knowledgeable about?---Well, that's - that's - this is all - these - these are all - the - the - what I'm going through today is basically the parameters that our budget - budget estimates are based on.

Okay. So who's best placed to do something about wage growth, the West Australian Government or small business, in your view?---Well, um, I think, as you'd be aware, the public sector is, um, ah, er - er, trying to moderate, er, um, ah, expense growth because - - -

From an economic point of view, given your knowledge of government and your knowledge of business conditions, putting to one side government Wages Policy, who's best placed to do something about wages growth, the government or small business?---Um, well, I don't think it's just as easy an - a response like that. Um, it - er - er, in a - in one sense, the - the government has, ah, Wages Policy as a, um - as a leader at - in - er, or policy it can use, ultimately.

Well, the government makes a submission here - - -?---But - - -

- - - that there should be a 2.7 per cent wage increase?---Yep.

Now, government's not offering a 2.7 per cent wage increase to anyone above about $36,000, I think, is where the 1,000 starts to look like a 2.7 per cent?---Mm.

So my question is - and if you can't answer it, fine, but - - -?---Mm.

- - - who's best placed to make a difference to wage growth, government or small business?---Um, well, business will offer wage growth where there's competitive pressures. They're - they don't, ah - - -

Except - - -?---Sorry - - -

- - - that we'll be - - -?---Through - through - through the - - -

- - - telling them to increase wages by our decision?---Mm hmm. Yep. So that's one instrument. And - and the government's got its Public Sector Wages Policy. There's just two different instruments. Um - - -

But small business might say to us, "We can't afford a 2.7 per cent wage increase"?---So what I'm doing is outlining - - -

The government is saying, "Well, we can't afford a" - - -?---Yep.

- - - "2.7 per cent wage increase"?---Yep. I'm - - -

Who do you think would be best placed to absorb it?---Well, the government's obviously determined that its Wages Policy is what it can afford and, er - given its financial outlook. Um, and what I'm presenting to you is, ah, that - the conditions that the small businesses are operating under. Um, every business will be in a - in a slightly different position. Um, but what we're doing is going through a period where business conditions are getting better. Um, that said, you - you need to - so you need to, um, keep in mind that, ah, at the same time, um, ah, you don't want - ah, yeah, it's a - it's a - it's a - more of a matter of degree. You don't want excess increases in - in - in, um, ah, um, ah, minimum wage, because excessive increases can't actually be passed on, ah, given the current competitive environment. But, um, ah, most modest increases are - - -

Fair Work - - -?--- - - - um - - -

- - - Commission last year redefined modest. So they said that the labour market, the evidence suggests, is not affected by modest increases. They said, "Let's just say that's accepted wisdom". So then they focussed on the word "Modest"?---Well - - -

Has there been an effect on the national employment market as a result of the Fair Work Commission's decision last year, to your knowledge?---Well, I haven't looked at, ah, the - what's happened with employment of - of people who will - would be, mm, affected by that decision. Um - - -

All right. Let's just say - - -?--- - - - as a general - - -

- - - that New South Wales is the biggest economy in Australia?---Mm.

And since the Fair Work Commission's decision, the unemployment rate in New South Wales has dropped, has it not?---Mm. Ah, I haven't actually monitored the, um - oh, I don't have a - a recollection of exactly where it is, but we do know that the New South Wales unemployment is, I think I mentioned, about - earlier, about 4.8 per cent, some - something of that order. And indeed, as a general observation - and again, this is just a general observation - um, employment growth nationally was strong last year.

All right. Thank you for doing what you can with my questions, Mr Christmas. The situation I didn't want to find myself in is putting these questions to Mr Entrekin and him saying, "You should have asked the expert". So thank you - - -?---Okay, okay.

- - - for doing what you can for me?---Rightio. No, no worries. Ah, so we now - in some cases, we can only make those general observations. Yep.

SCOTT CC: I suppose matters of government policy are not for you?---Well, er, yes, that's - - -

Yes?--- - - - that's - - -

MATTHEW C: I got that idea?---Um - - -

EMMANUEL C: Well, I might just ask you one question though, because, um, what you said about the issue being around excessive versus modest seems uncontroversial and certainly is a submission I think has been made in the last two, at least, decisions that I've been a part of, and I'm sure many before that. The research coming out of the RBA recently also seemed to confirm that that's - that modest increases don't have a negative effect. And the issue for us is that people don't agree about what modest means, obviously.

Now, the Minister's submissions is 2.7?---Mm.

You're here as an expert and you're telling us about the general conditions. Does that strike you as a modest increase?---Um, look, ah, well, that, in - is, um, a - where - where the - where the drawn - line is drawn at modest and, er, excessive is - yeah, I mean, er, is a - is a - er, is a bit of a matter of gut and, um, ah, clearly - I think - I can't - I don't recall the exact, um, size of the wage increase last year, minimum wage increase, but it was - it's - it's, um, ah - we've got, um - um - the - the government - er, government's put forward a - a - a - a rate which, ah, gains as - is - is - is within that definition, ah, given the current context, I would suggest. But, um, ah, in terms of, ah - I - I do - it's not something I haven't thought of, but no one's actually defined what these terms are. And, ah, I, to be honest, want to spend more time before I define exactly what roughly is in the cut off, but, um, yeah, ah, how - how - how this - well, that - that's - that's really, um - I - I would - when - when I've seen people talk about excessive, they go the other extreme and sort of say, well, 10 - - -

SCOTT CC: I mean, is it - - -?--- - - - 10 per cent or more. Well, that's not - I - I'd suggest excessive might be a little bit below that, because that's a very big number. Yeah, so - - -

I suppose - - -

EMMANUEL C: Thank you.

SCOTT CC: - - - modest and excessive would have to be relative to - - -?---A situation - - -

- - - all of the current circumstances - - -?--- - - - mm.

- - - and history - - -?---Yes.

- - - of what increases were relative to the - to those times as well?---That's - that's correct. So definitely, the - the economic context is - is important. And, um, it's not that I haven't, ah, had a look at that RBA research. And it's - it's a good addition to the literature. But there's always that, um - so, ah, um, I - what I think you will find is that the view is, notwithstanding that generalised rule, current conditions, as - as the - the Chief Commissioner's noted, um, do need to be, er, taken into account.

Thank you?---Um, so, er, one thing I would note, um, in terms of why - or sorry, going back here.

We do actually expect wages growth to pick up. And the year it picks up is where, ah, business investment, household consumption and dwelling investment are in synchronicity, they're all - all growing again. And so that's where you have, um, that pickup in demand. Um, on this one, I, um - this chart really is just to show you that there's one of the closer economic relationships graph that we - that you'll see. Um, ah, so what I - what it is, is, ah, growth in WPI, ah, versus the inverse, or the underutilisation rate, which the underutilisation rate is a - a combination of the unemployment rate and, ah, the underemployment rate. So the under - um, the - so I mentioned before the under, um - underemployment is really people who are wanting more - um, more - they're employed but they want more hours. So it's a measure of slack in the labour market. And, um, oh, underutilisation rate has actually improved. So it's gone from 16.4 per cent in February 2017 to 14.6 per cent in February 2018. Um, so that's sort of consistent with our view that, um, WPI will be starting to go up. And we don't forecast the underutilisation rate, but implicit in the fact that we think WPI's gonna pick up, we're assuming that the slack is taken out of the - now has been taken out.

KENNER SC: Logically, it would follow, wouldn't it?---Yes.

Yes?---Yes.

SCOTT CC: So there seems to be an inverse relationship but also a lag between the two?---Ah - - -

They track - - -?---Yes.

- - - quite well but there's - - -?---Well - - -

- - - but there is a lag?---Yes. But there's a - it's a - because it's not, er, an exact relationship - I - I'd agree, er, generally there's a lag. Sometimes that appears a bit contemporaneous. But either way, it's either lagging or contemporaneous. Yep. Just in terms of the, um, Consumer Price Index, um, that's been very weak. It grew by point - er, CPI grew by .1 per cent in the March quarter, increasing by 0.8 per cent in annual average terms to March. Um, that's slightly higher than 0.6 per cent growth in the same period a year earlier. Um, the largest, ah - ah, contributors to the annual increase are alcohol and tobacco, transport and health.

I'm sorry - - -?---Um - - -

- - - what was the first one?---Alcohol and tobacco, yep. Um, the largest detractor from annual growth was housing, ah, consistent with continued falls in rents and project home prices. Um, notwithstanding the weak result in the March quarter, we do expect that our estimate of 1 per cent is reasonable for - for 17/18. You'd really need a quarterly change of between .1 and 1 per cent in the June quarter, um, to get that. And that's a fairly big range. And in the past, um, three years, ah, quarterly growth's been .2. So yep, we're fairly confident we'll hit, ah, our 1 per cent. When I say 1 per cent, we actually have - that could be, you know, .9 or 1.1. We have a .25 sort of range. Um, so beyond that, um, following a forecast of 1 per cent in 2017/18, our CPI is forecast to increase by 1.5 per cent, um, next year and to increase, um, to 2, um, ah, per cent.

And then, eventually, the midpoint of the RBA's target range at 2.5 per cent over that period, the prices will be supported, price growth will be supported by increases in Commonwealth Tobacco Excise of 12.5 per cent per annum, at least in adding three percentage points to inflation in the 2018/19, 19/20, 20/21, and there's also increase in the administrative prices, like health insurance premiums, education costs, property rates and charges and utilities. In the short term, as in 2017/18 those have been - there were pressures from those which are ongoing every year, pretty much, have been largely offset by a weak housing market. However, as the housing market starts to normalise, that won't attract as much as - which is why you've got that upward growth profile. And the housing - the reason why the sort of inflation forecast is different from those of the RBA and the Commonwealth Treasury, do reflect that housing component essentially. It's been a drag here and, up to date, it hasn't been a drag over east. Yes. So risk to outlook, really we see - there's many more risks than the ones that are summarised, but investment in the magnitude in timing, so even if - I think, as suggested, there may be a little bit of delay and there might have been a cost blow-out in the project. They don't always give details, and that was a media report. Whether that's accurate is also an issue, but it's inevitable with projects the size of a LNG projects that a quarter this way or that way can actually make a bit of a difference in terms of terms of growth, investment numbers and employment numbers. If investment ends up translating to be weaker than anticipated, then growth will weaken. The outlook for population growth creates a general element of uncertainty with the domestic demand. If overseas migration remains at current levels, rather than lifting as we think, growth in consumer spending and dwelling investment would be lower than forecast. And while growth in annual average employment strength in April, the year to April, rather, employment growth has been modest since mid-2017. That that continues, employment growth is weaker then we forecast, which may lead to a higher than projected unemployment rates. And finally, the housing market, there's also a risk that dwelling investment and housing prices may decline more strongly than forecast. For example, if population growth or labour market conditions are weaker than what we expect, a potential for timing and residential lending criteria - so we don't know how either the regulators or banks themselves might respond to the banking Royal Commission, but they may - either of those two may result in some tightening in conditions. They may not, it's just a risk. And globally, China - I did mention the rapid accumulation, so a lot of their investments being debt funded. We also had some very unfavourable demographic trends going on, so it just means that they're more, I suppose, at risk of a financial disturbance than they may well have been previously. And then the US Government's rhetoric around trade protection has translated into modest tariff announcements - sorry, some tariff announcements. Whether those actually materialise into similar trade problems is yet to - yes, I mean - I'm hearing in recent days that China and the US have sort of sorted their trade issues out, so, you know, it may well turn out to be that way. One never quite knows with the current administration in the US, but the real issue, probably the bigger risk is US monetary policy and rate rises, and whether they move interest rates too fast - and if they do, then we could be adversely affected. So those are the key risks, from what I - our point of view. That essentially says the outlook is - sorry, I have one more page. This is just to bring it all together. So activity in WA is - the overall economy appears to troughed in 16/17, so GSP looks like it's troughed, and we're expecting it to come out of that trough in 17/18 and 18/19, supported by strong growth in exports. Activity in the domestic economy is yet to trough, although the rate of decline is expected to be small in both 2017/18 and 18/19, which is the year the domestic economy is expected to trough, so 2018/19 is when we think that SFD will reach its lowest level.

Growth in key sectors of domestic economy have been either weak, in the case of household consumption, and negative in the case of business and investment and dwelling investment. That said, there are signs that the economy is close to turning. A lot of pickup in household consumption in the year-ended terms over 2017, and the strengthening of consumer confidence in early 2018, a strengthening in business confidence in 2018, and there has been a number of project announcements, so Gorgon Stage 2 and 3, (indistinct 11.46.49) projects are two in the last fortnight I think they've both been announced in the media, and improvements in labour market conditions over the last year have resulted in lifting employment and a decline, but modest, in the average unemployment rate, and participation rates are increasing. So those signs are all positive. Notwithstanding that, domestic conditions remain soft and that's reflected in historically weak wage, price and population growth. Growth across all the key elements of domestic demand are not expected to lift for another year, so that's when business investment and dwellings and consumption will all grind in sync, which is expected in 2019/20. So this time next year, we'll be very close to that.

SCOTT CC: So we're still very much influenced by the prospect of new projects within our resources sector, still driving the economy?---Yes. Those projects are really driving growth, our forecast for growth. That's not to say we don't - there won't be other sectors. Obviously the government's announcing the message to try and boost tourism, for example, so that's in the budget. So there are, there will be things outside of that. The other thing is that the infrastructure program, Metronet, so public stuff, sort of infrastructure, but it's an investment.

KENNER SC: Just on that, Mr Christmas just reminded me that the Commonwealth budgeted, or I think has - we've seen figures bandied around the media of 3.4 billion in infrastructure assistance, euphemistically described as the GST top-up. Is that factored into the numbers in terms of projections for growth, or is that something which is sort of off balance sheet at the moment? Or is that a bit hard - if you don't know, you don't know, but - - -?---My understanding is that - I don't know if a hundred per cent of it is, but I know, I believe a fair amount of it is.

It would be included, presumably?---Yes, and so therefore we would include - I haven't actually talked about public demand in - in this presentation.

It's a different factor?---Yes, nevertheless - I don't think the Commonwealth's adding to - that's been publically announced - is adding to the outlook that we've presented in the economic sense.

No. Thank you.

SCOTT CC: Thank you, Mr Christmas.

Mr Black, any questions?

CROSS-EXAMINATION BY MR BLACK:

BLACK, MR: Thank you, Chief Commissioner.

I've just got a couple - one or two brief questions. Thanks very much for the presentation.

The first one relates to the domestic economy. You mentioned that we've still got a bit of retraction before we expand in 2018/19. Does that mean that, in your view, we still have some challenges ahead of us in the coming year?---So where - 18/19, and all that, the main reasons we've got domestic demand contracting is we've got a 14 per cent decline in business investment forecast, and the main driver of that is activity on those LNG projects coming off. So that's - the challenge will be - the challenge is really associated with those. Outside of those projects, you know, you've actually - the underlying terms actually - so if you can strip them out of history and then strip them out of next year, you know, you probably actually have some positive.

Of the two primary moving parts we have in the economy, investment and net exports, which would you say is the bigger contributor to jobs growth?---Undoubted - investment is - is the labour intensive phase of production. Now, so that's across iron ore or LNG, but LNG is very labour - particularly labour intensive in its construction phase relative to production phase. Recollect - I recollect, you know, numbers are like, you know, 18 - something in this order, but it's that sort of order of, you know, 18:1 type - 18 people. But then, again, that's a very - that's - those are big projects in themselves, but in terms of the total labour force, you know, they are - you need to keep that perspective.

Sure. With investment, and it has been declining, as you have indicated, with an increase in investment, that would bring jobs, wouldn't it?---That - the - yes, the investment backfill we're expecting is going to support our unemployment out, that's for sure.

I just want to probably refer to the last - sorry, to attachment A in your submissions, just the second from last paragraph, really, employment risks?---Just a moment.

SCOTT CC: Are you at page 21?

BLACK, MR: Page 20, and I'm just checking.

SCOTT CC: Yes, thank you.

CHRISTMAS, MR: The second last paragraph?

BLACK, MR: The last page, second paragraph.

CHRISTMAS, MR: Last page, yes.

BLACK, MR: So this paragraph of attachment A indicates if the modest growth in employment that we've had since mid-2017 continues, then employment may very well be weaker than the forecast in the near-term and flow through to higher than projected unemployment. This appears to suggest that we have a high reliance on employment growth. You have pleaded if that isn't achieved we have a risk to recovery. Would you agree with that?---I think the risk is not the - it's a risk to the magnitude of employment.

That doesn't mean we would - we're expecting employment not to grow in 2019, so I think just we'll need to balance that.

Balance?---Yes, it's - - -

But it could potentially risk that planned recovery growth over the next 18 months, year to 18 months?---Well, I suppose we're already building in some softening. We are building in a softening related annual average growth and employment. Now, yes, if employment growth remains weaker in the next period, you're going to have a softer employment growth, and that growth is - does flow through to things like housing consumption, whether people come to the State, so yes. Other activity will be slower than - than currently forecast. That's the nature of it.

Thank you very much, Mr Christmas.

That's all, please the Commission.

SCOTT CC: Thank you.

Dr Dymond.

CROSS-EXAMINATION BY DR DYMOND:

DYMOND, DR: Thank you, Chief Commissioner.

And thank you Mr Christmas for your presentation. So I'm going to ask you to do something a little bit complex with flipping this hand-out around a bit, but if I could just ask you to go to the first one, which is the - Australia's key export markets, and, yes, as we've already discussed, there's a - you are projecting a decline in those conditions, moving into the future. So I'm just trying to look at how that would interact, and, once again, I apologise for the flipping around, how that would interact with the other graph that you have, which is to do with merchandise exports, which is just after the State Final Demand?---Ah, yes.

Where you are obviously forecasting an increase?---Yes, just about there, I think.

Yes?---So - - -

So how do those two interact, essentially?---Yes. Well, growth in China - and Chinese demand has been critical for growth in our exports, with, in the last decade, iron ore exports have something like tripled. Now - but we're not forecasting - our future export growth isn't relying on that same sort of trajectory. We are actually - as I mentioned earlier, by the end of the period, most iron ore producers are going to be producing close to capacity, so that's sort of reflected in that sort of flatter - you know, it goes from increasing to a little bit more flat towards the end of the period in terms of levels.

And there is a similar effect in LNG as well?---LNG will also - yes. It's, as I said, growing by 30 - 70 per cent in the year to 2019/20, and then flattening off as well.

Okay. So if we move back, once again, a few charts, I crave people's indulgence, to the one on Growth State Product?---Yes.

Or Gross State Product, so that's second chart in from the Western Australia economy. So contribute - yes, contributions to growth.

Now, my - probably my eyesight is perhaps a little bad with some of the colour shadings here, so I'm just having a look at sort of what do you - what can you read off about the contribution of net exports to future growth?---So net exports contribution is coming down substantially.

Okay.

So in that sense, would it be fair to say that we're going to be relying for, if you like, the economic resilience of Western Australia into the future on those other components of Gross State Product, including thing - including elements like household consumption?---Yes, so while - while there's still contributions from net exports, which means they are actually still helping the economy grow, the rate of growth is obviously being largely supported by the non-export sector. But it's more balanced than it is now when it's largely driven by one.

Okay, so with that in mind, once again, I'm going to crave people's indulgence as I move to - yes, moving along, after the business investment graph, you have the consumption by category graph?---Consumption by category.

Consumption by category?---Yes.

So Gross State Product, business investment, that's the one. So given that the discretionary component of that particular - of consumption by category, which has obviously gone down overall, and the discretionary component, which was quite high in around sort of December 2011, seems to have sort of pretty much vanished off the charts on that score, to what extent would you say that wages growth and the capacity to spend on discretionary or, quote, unquote, "Non-essential items", would contribute to actually lifting levels of discretionary spending?---That's - that's, you know, not something I have any detailed analysis of, but we nonetheless are expecting a number of things to drive at, so one of the reasons why that's so low is just because the number of people coming in the State is growing at a lower rate than have done, and as you have more people, the consumptions will grow, so you're going to have that, but you'll also have things that we haven't seen for a while coming into play. So we expect to see wages to start lifting, albeit modestly, but also we are coming off a period where house prices have been negative, where - we're not expecting a very strong growth, don't get me wrong, but at least the wealth effect, and we are expecting some very modest increases in house prices are - which, you know, will have a little bit of a wealth - or a positive on - give you a bit of a positive feel, but, again, I don't want to overplay that. But when you've got - in 2018/19, we are expecting sort of the median house price to actually grow, after at least a year or two of either falling or flat prices. So, you know, that may make people feel more comfortable. The fact that confidence is up also suggests that, you know, we - we are more confident in spending on discretionary rather than just pure need.

And you are - I think in another chart you are expecting obviously population growth to increase in Western Australia, that's the basic forecast?---We are, it's a pretty - pretty - it starts off more gradually before, yes, picking up.

And the discretionary spending items, so you've got there cigarettes, alcoholic beverages, clothing and footwear, hotels, cafes, restaurants, et cetera, et cetera, all of those would involve spending in, if you like, very much the capital D, Domestic Economy, as in places that are - as in spending within Western Australia, sort of households going out, households going out, households contributing to general demand and economic activity within those services sectors?---Yes, you would. One - one of those items, purchase of vehicles, you know, most of those will be imported. But - yes.

Okay. And both yourselves and - sorry, WA Treasury, I should say, and the Federal Treasury, and also the Reserve Bank of Australia, are all basically forecasting wage increases, or Wage Price Indexes to go up?---The - yes, the Commonwealth Treasury has also - the Wage Price Index to go up, yes.

So in that - on that score, one of the things that the Reserve Bank has recently - one of the charts that the Reserve Bank has recently put out is pointing out that the wage increases that Australia has experienced over the last quarter or so, or over the last year, I should say, has essentially largely come from the national decision to actually increase the minimum wage by about 3.3 per cent. Is that a - is that a perspective that you would agree with?---Well, I - to be honest, I haven't seen, I'm not disagreeing that that's not - I just haven't seen that, so I'm not in a position to really comment on what the RBA has done, and I haven't personally tracked - done the analysis that you are alluding to, so I don't feel qualified to make a comment on that, really.

No. But you feel that that's a - would that - does that sound to you as a reasonable sort of conclusion to draw, based on the sort of lack of wage growth in - coming out of other sectors?---Well, it will be a contributor. I - I'm not in a position to say relative contribution of that decision compared to, you know, decisions or agreements reached between employees and employers outside of - or above - above minimum wage across the country. I really just haven't - I - what I do know is that, you know, our rates of wage growth are lower than national, like - and national doesn't - has been also relatively soft, but - so nationally, yes. 2 per cent increase, and - yes. So that decision would have - would have been on the - you know, contributed to that growth, but, again, there's a lot of other factors, and I haven't done the analysis to draw the relative contributions out.

Absolutely, and I fully understand that. But would it be fair to say that if wage growth is being forecast, wage growth is being projected then it does sort of open the point that at some point, wages have to increase, which means somebody has to make the decision to increase wages at some point? So, I mean, when the Treasury does these projections, what do they see as the fore - as the sources of wage growth?---Well, obviously, one of the things we look at is aggregate demand, so domestic conditions, looking at part of that. The degree of slack in - in the labour market, and I've talked about that. There will be some extent to which wage growth, wages agreements between employers and employees nationally impacts on us as well, because you've got companies operating national and their wages may - you know, national wage growth is higher than ours, so to the extent that agreements are across jurisdictions, then there might be some spill over of wage growth nationally to ours.

And you include aggregate demand, you said, in your - in those particular - - -?---Definitely. That's a key aspect of it.

All right. Thank you very much, Mr Christmas.

No further questions.

SCOTT CC: Thank you.

Mr Twomey, do you have any questions?

CROSS-EXAMINATION BY MR TWOMEY:

TWOMEY, MR: Yes, thank you.

I noted in your chart, Mr Christmas, where you are talking about contributions to growth, that household consumption in the out years is increasingly making a large contribution, and when you were talking about the components of household consumption, you said as population and wages growth increases, we do expect an increase in household consumption.

I guess the issue that I wanted to ask is to what extent are your projections around GSP growth and economic recovery very much dependent on growth in wages and the Wage Price Index? Because I did note when you were talking about the risk factors you didn't mention wage price growth at all, but I have seen four articles in the last week, a couple from, you know, professors of economics on the conversation, there was one recently in the West, that we're pointing specifically to wages growth as a potential weak link in projections around budget recovery.

Is that a fair comment?---I think there certainly has been those comments made, I think they've been made a little while, so this Budget wouldn't be the first time those observations have been made by commentators and I'm not talking about necessarily the WA Budget, the Commonwealth Budget is probably the one that gets people press in that sense.

Yes?---But, look, the nature of macroeconomics is there's linkages, but, you know, all different ways, so the aggregate demand generally means you lift your employment, and as your slack comes out of the economy, your wages will lift, which will support stronger consumption, and so there's an inter - lots of interrelationships, and if wages was less than we thought, well, yes, we would expect that household consumption would be weaker than what we anticipate. We actually have lower WA - our WPI forecasts are slightly below the Commonwealth across the period.

But they are still growing?---They are still growing.

Quite dramatically, I think up to 3.25 per cent growth on forward estimates?---3 point - yes, I believe that's right.

Yes, and the Commonwealth I think goes to 3.5?---Point 5, yes. Although I think they are - - -

Although that's quite still - that's still quite significant growth?---Mm hmm.

I guess my concern there is what is the risk around those projections if that growth rate doesn't occur, how much of a contribution might it make to the wide projections around the WA economy?---It really does depend on how the future plays out. And so what I mean by that is we're expecting investment to happen, and it really depends if there - whether that investment creates enough demand for wage growth more generally, doesn't mean that it may - the demand may be sufficient to get some slack down, but not sufficient to support too strong employment - wage growth. So investment could well drive activity still, with - but, you know, the counterbalance is that household consumption would probably be a little bit weaker than otherwise.

Yes?---But, you know, you - it really depends on how - how that balance between employment and wages plays out.

Because, I guess, one of the concerns, and this was in some of the comments from the Reserve Bank Governor was around whether that, you know, nexus, as you were saying, in increases in demand and also for instance increases in productivity, whether that was actually still being reflected in wages growth. Because this is one of the big concerns at the moment, that if demand and productivity isn't being reflected in wages growth, then it suggests that the only mechanism that's really there comes around a work - wage setting in the minimum wage.

Do you feel that's a feasible suggestion?---Well, although I'd be comfortable, I haven't - I haven't actually again looked at detail on what the Governor has said. I have heard his - the interpretation of his comments saying that we need more wages growth. Now, wages growth obviously does impact on consumption, and I'll - you know, to the extent that you don't have as strong a wage growth as forecast, everything else being equal, so the employment rate being what we thought it would be, and that sort of thing, you would expect households - more income constrained, and therefore be a bit more careful with their spending.

Yes?---That's about as far as I would be prepared to sort of comment on a general level.

In terms of the Minister's submission, and the $19.20 increase that they have suggested there, has Treasury been asked to do any projections at all about what the impact that would be on wages growth? Would that scale of increase lead to the type of increases you are projecting in the future, or would you need be pushing for larger increases in future years to actually make that level of increase?---In terms of the - obviously, a certain proportion of people are affected, and how that play - how - you know, where - the relative size of that component, relative to the whole economy, will impact on, you know, the size of that, and I think there's some evidence out that's been provided on, and there's a bit of uncertainty, from - from what I understand, as to the actual exact coverage. So - yes. I'm not going to put a - - -

Yes. In our sector, that's around 30 per cent?---Yes. Oh, 30 per cent, okay. Well - yes. I haven't - I haven't got - got a number of how that's - that would - the impact, we haven't actually done that. But, obviously, 2.7 per cent is - is above the current WPI, so you'd be contributing to that wage growth.

And I guess I'm noting your other slides that you had, health and social services, along with - I think it was education were the two kind of major growth areas ?---Yes. So - in terms of employment?

Yes?---Yes. So while we haven't fully - I haven't fully got down to the drivers, I do understand that, well, anecdotally, I've heard - there's the idea that NDIS may be contributors to that.

Yes?---So that - that's - that roll out of the NDIS, maybe, they contributed to - in that space.

Yes, I think the big one there is around AHG?---Yes, I think so.

Okay. Thank you.

No further questions.

SCOTT CC: Thank you.

MATTHEWS C: Can I just pick up on some questions that were asked of you, Mr Christmas, by Mr Twomey? I think what Mr Twomey was advancing through his questions was that growth in GSP is going to rely, at least in part, on increases in household consumption?---Yes. Yes, correct.

And I think you were saying obviously wage growth assists with household consumption, make that assumption, at least?---Yes.

I think it was that further - assuming that wage growth can come through an increased demand for labour by productivity gains, but also wage growth can come through decisions from bodies like ours. So as an economist, do you have a view on whether there is something wrong with wage growth coming from decisions of bodies such as ours rather than from the market forces?

As an economist, do you have a view?---Well, that really depends on a whole range of factors, so depends on where the market clearing wage might be, in a perfectly competitive environment, relative to the minimum wage, where those two - where those two are will have an influence. The issue of whether - well, presumably, in a - in a negotiated outcome, there will be - you would expect that the - if it's both parties agreeing to that outcome, then the employment - then presumably firms are demanding - are happy to pay that rate to the employee - - -

But it doesn't seem to be happening at a national level, at least, because we haven't got strong wage growth?---Yes.

Despite companies doing well, it might be people are scared of robots or whatever the explanation is, but it doesn't seem to be happening at a national level?---Yes.

So some of the theme of the questioning was, well, who is going to get the ball rolling?---Mm hmm.

And a theme of some of the questioning was, last year, the Fair Work Commission tried to get the ball rolling with the 3.3 per cent increase, the sky hasn't fallen in. Very different here, where we are talking about a decision that will impact more on small business at a local level rather than big business at a national level. But coming back to that, as an economist, do you have a view on whether it will be us getting the ball rolling or business through market forces ought get the ball rolling?---So what I - what I'm trying to - what I was trying to say is I'm not - not necessarily taking - even able to make that call, because it really depends on where you are. One of the - one of the issues we have talked about is - - -

I suppose what I'm adding in is it's been road tested at national level, and the Fair Work Commission said, essentially, "We're going to get the ball rolling" last year, and the national economy has improved since then. If we look at the unemployment rates, let's take - - -?---Well, yes, or even total growth has increased, so - there's a general, yes, improvement you would say nationally, yes.

I suppose, what I would say, do you have any comment to make about us getting the ball rolling in our environment, an environment where this decision will largely affect the small business?---Well, my only observations, we are not quite at the same stage as the national economy in terms of we're actually coming out of a contraction of GSP, and we've got - we're forecasting a decline, albeit tiny, 0.25, so, you know - per cent decline in domestic demand, so conditions are a little bit different to the national.

Okay. Thank you?---Yes.

SCOTT CC: Mr Entrekin, is there anything further with Mr Christmas?

ENTREKIN, MR: No, Chief Commissioner.

SCOTT CC: All right.

Thank you, Mr Christmas. Once again, we thank you for the advice you have given us, and the responses you have provided, and may I say how valuable we find your presentation each year, so thank you?---Thank you. Thanks.

You may depart?---Thank you.

WITNESS WITHDREW

SCOTT CC: Now, Mr Entrekin.

ENTREKIN, MR: Thank you, Chief Commissioner.

SCOTT CC: We take it that you don't intend to read your submission to us, and you can take it that we have actually read it ourselves.

ENTREKIN, MR: Correct. I will try to be as fast as I can.

And thank you to Mr Christmas for his presentation today. The Minister extends his appreciation for your time.

Moving on to the Minister's decision, the Minister relies primarily on the written submissions already lodged with the Commission, but I will take the opportunity just to reiterate the basis of the Minister's position and to address some of the issues that have been raised by the other parties.

The Minister recognises the importance of maintaining a strong safety net for those employees who remain in the State jurisdiction. The annual review of the State minimum and award wages plays a critical role protecting the needs of the low-paid and helps to ensure the maintenance of a fair system of wages and conditions of employment. The Minister supports the Commission taking a balanced and equitable approach to Minimum and Award Wage setting to provide for West Australian workers while ensuring any outcome is sustainable.

Section 50A of the Industrial Relations Act requires the Commission to consider the need to contribute to improved living standards for those West Australians reliant on minimum and award wages. The Minister believes that granting a real wage increase in this year's State Wage Order will help to improve the relative economic position of the lowest paid workers, enhancing their standards of living and protecting against the risk of poverty.

The Minister submits that in this year's State Wage Order, it is appropriate that the State Minimum Wage and adult award rates of pay be increased by a flat dollar amount of $19.20 a week. Flat dollar adjustment would ensure the greatest benefit of this year's Minimum Wage Order is directed to the lowest paid. The Minister notes that the Commission has itself targeted those on the minimum wage or slightly above it in previous State Wage Case decisions.

A $19.20 per week adjustment would increase the State Minimum Wage by approximately 2.7 per cent, taking it to $728.10 for a 38 hour week. But it is worth noting that for other award rates of pay above minimum, the Minister's position would amount to less than 2.7 per cent. For instance, it would represent approximately a 2.4 per cent increase in the C10 classification in the Metal Trades Award. The Minister acknowledges that a flat dollar increase will create a minor flattening of some award relativities between classifications, however any change would be minimal.

The Minister submits the real wage increase is appropriate as it's important that lower-paid workers do not face a further widening of income inequality, something that can have undesirable social and economic consequences. As outlined in the Minister's written submission, Western Australia's economic and labour market performance has improved pronouncedly over the past year, and it is appropriate that the living standards of the low-paid maintain and improve in line with those in the broader community.

In the year to March 2018, total employment has increased by a healthy 2.2 per cent in annual average terms, following a decline of 1.4 per cent in the 12 months in the year to March 2017. The strong rebound in employment growth was led by a 2.8 per cent increase in fulltime hiring, as you saw in Mr Christmas' presentation, which helped to reduce the State's average unemployment rate.

Another encouraging sign is the participation rate, which currently stands at 68.8 per cent for April. That was the equal highest in the last three years. A high participation rate is often a sign of confidence, growing confidence, in the labour market. The Minister notes that the most recent seasonally adjusted figure for average weekly ordinary time earnings in Western Australia is $1,742.80 per week, which actually equates to just under $91,000 per annum. At the same time, the State Minimum Wage is currently less than $37,000 per annum. In the C10 classification, that is the "Skilled Tradespersons" classification, it is a little over $42,000 per annum.

As also outlined in the Minister's written submission last year, the most recent employee earnings and hours data from 2016 indicates that award-reliant employees in Western Australia have the third lowest hourly earnings in the country, and this figure is actually lower than the national average. Clearly, minimum and award-reliant employees are not highly paid, and the State Wage Order can play an integral role in not only maintaining a safety net for such workers, but ensuring their livelihood. Many low-paid workers are unable to bargain for higher wages and are solely dependent on increases determined in the State Wage Case to meet changes in their everyday living costs.

The Minister also notes that there are sections of the workforce that are currently award-free in the State jurisdiction, including workers engaged in a number of occupations that would traditionally be considered award-type work. As outlined in the Minister's submission, this is due to a variety of factors such as historic anomalies in award creation, significant changes in the Constitution coverage in the State jurisdiction and the development of new industries and occupations over time. As award-free employees have fewer protections and are solely reliant on the minimum rates of pay determined under the Minimum Conditions of Employment Act. The Minister submits it's important that such employees are appropriately protected through a fair and meaningful increase in the State Wage Case.

I'll now address briefly a few of the other issues that have been raised by the parties in their submissions. In relation to the CCI, in its submission, CCI advocates for the minimum wage and State Award wages to be increased by not more than 1.2 per cent. Well, the Minister appreciates that CCI is advocating for an increase to minimum and award wages in this year's State Wage Case.

The Minister respectfully submits that the quantum proposed by the CCI would not provide low-paid employees with a meaningful wage increase in the current environment. Although wages growth is currently modest, rates of pay are nonetheless rising and as we saw in the presentation, the Wage Price Index is projected to increase by 1.5 per cent in 2017/18 and 1.75 per cent in 18/19 rising further in the out years.

Furthermore, average weekly ordinary time earnings increased by 2.3 per cent in the year to November 2017. Which is another sign that wages growth is gradually strengthening in Western Australia in line with the recovery of the domestic economy. An increase of 1.2 per cent or less would effectively see wages of minimum and award wage earners rise by less than the workforce as a whole contributing to an increase in wage inequality and the deterioration in the minimum wage bight.

By granting regular real wage increases over the last few years the Commission has played a crucial role in countering wage inequality and this year that is crucial to the continued prosperity of the State and its social cohesion. The Minister notes the significant improvements in business confidence within Western Australia in more recent months as evidenced by the CCI's own Survey of Business Confidence which showed that business confidence in Western Australia is at the highest level in seven years.

The Minister submits that an increase in $19.20 per week would provide a fair and sustainable increase for minimum and award wage earners. The Minister notes that CCI has raised the issue of State Minimum Wage and State Award Wages being higher than in the national jurisdiction arguing that on the one hand this places WA employers at a cost disadvantage compared to their national counterparts.

However, in that regard the Minister notes that not all minimum wage rates in the State Industrial Relations system are higher than in the national jurisdiction. As illustrated in the Minister's written submission in reply the statutory minimum rate for an adult casual employee in the State system is currently lower than it is in the national jurisdiction due to a higher casual loading being applied in the national system. In the statutory minimum rates for many award-free trainees, apprentices and some award-free junior employees in the State system are also currently lower than in the national system.

So while some rates of pay and State Awards are marginally highly than in comparable national awards it should also be noted that other rates of pay are lower. For example, the minimum rate of pay for a part-time adult shop assistant working on a Saturday morning is currently $23.54 an hour in the State system, whereas it's $25.10 in the national system. Similarly, the rate of pay for a casual hotel bartender, Level 2, working on a Sunday is $29.73 per hour in the State system whereas it's $34.18 in the national system.

As mentioned earlier it's also relevant to note that there are sections of the workforce that are currently award-free in the State jurisdiction including workers engaged in occupations that are covered by awards in the national jurisdiction. In the national system, almost all employees below the professional or managerial level are covered by an award. Employees who are not covered by any other award generally fall within the coverage of the Miscellaneous Award 2010. And that award includes penalty rates, overtime provisions and annual leave loading which are all entitlements that are not provided for under the State minimum conditions of employment.

In relation to UnionsWA's submission, the Minister notes that UnionsWA recommends the Commission increase the minimum and award wages by $50 a week or 6.2 per cent, whichever is the higher. In practise this would bring the State Minimum Wage and award wages up to and including the C10 classification would increase by $50 per week. And award wages above C10 would increase by 6.2 per cent. The Minister recognises the importance of maintaining a strong and meaningful safety net for those employees who remain in the State jurisdiction and shares the concern of UnionsWA that the living standards of the low-paid were protected.

In that regard the annual State Wage Case process plays a vital role in ensuring the maintenance of a fair system of wages and conditions of employment. While the Minister supports a real wage increase that would positively benefit low-paid workers, it is also important that any outcome cost is an environment that would support increase jobs growth and enhance Labour Market opportunities. The Minister encourages the Commission to order fair and sustainable outcomes in this year's Wage Case and contends that an increase in $19.20 a week would appropriately achieve this aim.

In relation to WACOSS as with UnionsWA, WACOSS proposes a $50 per week increase in minimum and award wages, albeit it has not specifically proposed a 6.2 per cent increase for rates of pay above the C10 classification. As the quantum proposed by WACOSS is similar to that of UnionsWA, the Minister earlier comments in regards to UnionsWA would be relevant in the case of WACOSS as well.

The Minister notes that WACOSS proposes its recommended $50 a week increase in award rates be flowed on in full to junior employees, apprentices and trainees. In its written submission, WACOSS has acknowledged that statutory rates of pay for junior employees are automatically determined as a relevant percentage of the adult minimum wage under section 13 of the Minimum Conditions of Employment Act. However, it continues to advocate the merits of a $50 increase for all employee groups.

Putting aside the statutory considerations concerning minimum wage rates for junior employees raising all junior apprentices and trainee rates of pay by $50 per week would represent a significant increase in pay for many of these workers. In some cases, up and to and exceeding 20 per cent. Such a large increase could potentially have unintended consequences. The Minister would not wish to jeopardise employment training prospects of some of the more vulnerable employees in the workforce.

Many State Awards obviously contain specific formulas for determining the junior and apprentice and trainee rates of pay often based on a percentage of the adult rate classification. The Commission would therefore be required to vary or override existing wage formulas in a substantial number of awards if it was to apply for a flat $50 a week increase to all wages.

The Minister contends that any increase to adult rates of pay determined in this year's State Wage Case should be flowed onto juniors, apprentices and trainees in accordance with its existing mechanisms. Should there be a need to review the rates of pay for employees in a particular industry or occupation, this can be dealt with by an award-by-award basis through application to the Commission.

In relation to the Australian Hotels Association the Minister notes that the Hotels Association has advocated the State Minimum Wage and award wages be increased by 1 per cent. As with the CCI, the Minister respectfully submits that the quantum proposed by the Hotels Association would not provide low-paid employees with a meaningful wage adjustment in the current environment. The Minister submits that an increase of 1 per cent would not provide a sufficient increase in wages to safeguard the needs of minimum and award wage workers particularly as their wages would not keep pace with those in the broader community.

The Hotels Association has submitted that in accordance with section 50A(3)(f) of the Industrial Relations Act, the Commission should consider the ongoing effects of the Penalty Rates Decision made by the Fair Work Commission. In particular it states that the vast majority of employers in the hospitality industry in Western Australia are not covered by the State system and continue to enjoy not only lower minimum hourly rates for most classifications but the ongoing benefits of reduced penalties on public holidays.

The Minister contends that the level penalty rates determined in national awards should have no bearing on the State Wage Case. Particularly given the different statutory provisions underpinning the State and national Labour Relations frameworks. Many employees in the retail and hospitality industries rely on penalty rates to make ends meet. The Western Australia Government believes employees who work unsociable or extended hours should be fairly compensated for their efforts.

The Hotels Association also provides examples of award rates of pay in the hospitality industry that are higher in the State system than in the national system, in particular rates of pay for a bartender, Level 2, working on Saturday and a public holiday compared between jurisdictions using the rates of pay and the national Hospitality Industry Award and the State Hotel and Tavern Workers Award.

In that regard the Minister contends that not all of the wage rates in the State hospitality industry are higher than in the national system. In fact a comparison of the rates of pay in the national award and the State Award reveals that minimum rates of pay for working on a Sunday are currently lower in the State system than under the national system and that's for fulltime, part-time and casual employees.

Minimum rates of pay for casual employees working on a public holiday are in fact lower under the State Award than under the national award. And minimum rates of pay for work performed on weekday evenings after 7 pm are also marginally lower under the State Award than under the national awards and that's for fulltime, part-time and casual employees.

In addition to the above, causal employees are not entitled to overtime rates under the State Award whereas they are entitled to overtime under the national award. So the Minister would caution against making broad assumptions that State system employees in the hospitality industry or other industries are always at a comparative disadvantage with its counterparts in the national system when it comes to wage costs.

SCOTT CC: Another option, of course, and I say this firmly with my tongue in cheek, is that the national system might follow the State system.

ENTREKIN, MR: It could indeed.

SCOTT CC: It might resolve some of those difficulties.

ENTREKIN, MR: I agree, Chief Commissioner. We're not expecting it but - - -

SCOTT CC: I don't expect you to comment on that but nonetheless.

ENTREKIN, MR: But you're correct. One could switch it around. In relation to the State Wage Fixing Principles as part of this year's State Wage Case, the Commission's indicated it would welcome receiving submissions about the currency of the Statement of Principles. In particular where the statement - separate Equal Remuneration Principle should be developed.

Section 50A(1)(d) of the Industrial Relations Act requires the Commission when issuing a State Wage Order each year to set out a Statement of Principles to be applied and followed in relation to the exercise of its jurisdiction under the Act to set wages, salaries, allowances or other remuneration of employees or prices to paid in respect of their employment. Section 50A(3)(a)(zii) of the Act provides that:

> "When making a State Wage Order the Commission is to take into consideration the need to provide equal remuneration for men and women to work for equal or comparable pay."

As part of the 2007 State Wage Case the submissions of UnionsWA and the Minister sought to have a separate equal remuneration provision included in the Statement of Principles to establish a process and criteria for determining how the Commission could assess applications for award variations to provide equal remuneration.

In its Reasons for Decision the Commission expressed the view that the Principles should permit an application to be made for equal remuneration given that this is a principal object of the Act. However, the Commission did not consider it necessary to create a separate Principle for equal remuneration stating that such a claim could be brought under the existing Principle 10. Nor did the Commission consider it advisable to set out the criteria by which such a claim could be addressed expressing a view that specific criteria might restrict or confine the principle of claim, which may or may not be appropriate.

The following year in the 2008 State Wage Case, the Minister's submission proposed that Principle 10 be modified and include specific reference to equal remuneration to give parties guidance on that matter. And the Commission agreed with the Minister's proposal that Principle 10 was modified to include specific reference to the fact (indistinct 12.39.42) such as equal remuneration for men and women who work for equal and comparable pay.

Principle 10 is not yet being used to bring a specific equal pay application in the State jurisdiction and no legislative or case law criteria currently exists to guide the Commission in determining equal remuneration matter. As the Commission and Section 50 parties are no doubt aware the Ministerial Review of State Industrial Relations Systems are currently considering the inclusion of an equal remuneration provision in the Industrial Relations Act with the objective of facilitating the conduct of equal remuneration cases and other issues in the Commission.

The interim report of the review was published on 20 March 2018. The Minister places on record the West Australian Government's strong support for the Principle of equal remuneration and commends initiatives aimed at furthering its objective.

The Minister notes that it is open to the Commission to amend the Principles to advance equal remuneration matters including through the establishment of a separate Equal Remuneration Principle. The Minister would welcome the opportunity to work with the other Section 50 parties to develop a draft Equal Remuneration Principle for the Commission's consideration that reflects best practice in gender equity evaluation. The Minister notes the Commission has also invited feedback on whether in light of the Ministerial review Principles ought to be amended at this time, or await the outcome of the review.

In this particular issue the Minister does not believe there is any particular reason to delay the introduction of an Equal Remuneration Principle. Indeed, the Minister submits that the rationale for including an Equal Remuneration Principle remains as relevant today as it did in 2007. The Minister contends that the Statement of Principle as a living document should reflect contemporary circumstances in State Wage Orders from year to year and can be updated or amended as and when needed.

Introduction of an Equal Remuneration Principle would provide guidance to employers, unions and the Commission on process and criteria expected of parties in equal remuneration matters brought before the Commission. Turning to other issues - sorry - - -

SCOTT CC: Before you do - - -

ENTREKIN, MR: Sorry.

SCOTT CC: - - - Mr Entrekin - and I would welcome the other Section 50 parties' comments on this also and that is that 2007 was a long time ago, things have changed in that time. There is within Principle 10 a recognition of the capacity to bring an equal remuneration case, but as you say there are no guidelines as to what that might be.

The Commission can issue a State Wage Order only once a year, so one would assume that we are not going to be able to prepare a Principle in this State Wage Order, because we have no submissions on what that might contain. What occurred to me was that - and I am conscious of the review of the State Industrial Relations System and that I think relatively shortly there will be a final report. But these things take their time and government consideration as to whether or not it will be acted upon and if so to what extent and when.

So if we were to move on that matter I would welcome any comment regarding whether the Commission ought of its own motion bring on an application for a General Order and in that way provide a process for interested parties to participate in conciliation with a view to developing by consent a set of Principles dealing with equal remuneration.

And if not whether that is a matter that ultimately might go to arbitration for the creation of a Principle separate from the Statement of Principles at this stage, but possibly with a view to it being collapsed into the Statement of Principles on another occasion. So that is something I would welcome comment from yourself, and from the others when their turns comes.

So any thoughts on that, Mr Entrekin?

ENTREKIN, MR: Yes. And in that regard I am happy to look into that proposal. The Minister is more than willing to participate in whatever forum is deemed most appropriate for facilitating an Equal Remuneration Principle. So that may well be another mechanism for dealing with certain - just in relation to the other Principles, in relation to the other Principles, the Minister notes most of them were last reviewed in the 2008 State Wage Case, and they have not substantively been revised since that time.

The Minister contends, the majority of the Principles are adequate for the purposes of the State Wage Order. Probably some have been in existence for quite a long time and reflect particular developments in the national State Wage Case proceedings over the years. The Minister believes that several of the Principles could benefit from an amendment to provide clearer information to employers and employees and to better reflect the contemporary safety net that apparently exists in the State jurisdiction.

In this regard, the Minister makes the following observations. The Principles 8.1 and 8.2 are Principles that currently provide that where the minimum rates adjustment process in the award has been completed, the Commission may consider an application for the base rate supplementary payment and the State Wage Order adjustments to be combined, so the award specifies only to a minimum rate for each classification.

In 8.2 there provides that, by consent of all parties to the award, where the minimum rates adjustment has been completed, award rates may be expressed as hourly rates or weekly rates. In the absence of consent, a claim that award rates may be so expressed may be determined by arbitration. The minimum rates adjustment process dates back to the 1980s. It was part of a structure efficiency Principle introduced to make awards more flexible and efficient.

While award parties still have the option of addressing a minimum rate adjustment process, the Minister is not seeking to remove this option. However, the Minister contends there may be merit in deleting Principles 8.1 and 8.2.

SCOTT CC: But also you could also delete 8.3, I suspect, because all that does is reflect the current Stage Wage - or the then-current State Wage Order?---Indeed, yes. Yes.

And you could delete it because, as you say, there is reference in Principle 4 to previous State Wage Orders?---Correct. Yes.

So that could be dealt with. One thing that arises from my perspective is that 8.1 and 8.2 - well, particularly 8.1, talks about the fact that a number of the awards have minimum rates adjustments and supplementary payments. They have various components that make up the total rate. I suspect that there is very little relevance now to having those separately identified, and that there is very little within the remainder of the award that relies on those separate components, and whether it would be easier, whether it makes any difference to any other benefit within the award to simply have them all dealt with by way of - and I don’t want to create work for the Commission’s award section.

But if we were to undertake that process of collapsing those rates into a total rate in those awards where there is that, to simplify the awards and the focus that the Minister has made on these Principles, I think is to make the awards more comprehensible by people, particular seeing as many of them are not utilised a great deal?

ENTREKIN, MR: Correct. Yes. Yes, certainly, if there's a two-step process there that - - -

SCOTT CC: Yes.

ENTREKIN, MR: Deleting Principles 8.1 and 8.2 on its own obviously won't make any change to the awards in question, and simply 8.1 and 8.2 - 8.1 is included first in the National Wage Case in 94, and then 8.2 in 97. That quickly flowed on to the State Principles. But at the time, in 1989 when the minimum was introduced in the national system, that was the only way that you could actually get a wage increase, is to go through this structural efficiency process, and there were a number of other things besides just minimum rates adjustments, but there was kind of an expectation that everybody would go through this.

SCOTT CC: And they haven't?

ENTREKIN, MR: And they haven't.

SCOTT CC: No.

ENTREKIN, MR: You had to go through that process to get an increase, and so 8.1 and 8.2 are just kind of at the tail end of that process, but it was written in the mid-90s for that particular point in time when it was anticipated that all of these awards would then be coming through in the near future, having completed the minimum rates adjustment process, and obviously for various reasons that hasn't happened. So deleting those on its own won't obviously change the way that those things are expressed in awards, but then, yes, there's certainly the further options in terms of whether or not wages in general are expressed in - - -

KENNER SC: Well, that scheme was very much a product of a bygone era, if I can use that phrase advisedly, and time has moved on, I suspect?

ENTREKIN, MR: Indeed, yes. But the base rates, supplementary payments, which were - are the award payments - rolled into the awards, but they were made minimum rates and then arbitrated settling their adjustments. In some State awards the Arbitrator would say that the adjustment figure exceeds the base rate figure, so they've had many, many years of the Arbitrator settling their adjustments added on, so yes, certainly it was - just happened to be picked up.

SCOTT CC: Well, it might be then that, in the same way as I'm suggesting the Commission, of its own motion, take up a Principle related to equal remuneration. It might be that, as the Chief Commissioner did in 2008 in respect of a couple of the other issues that you've raised, that the Commission might act on those things of its own volition to examine those?

ENTREKIN, MR: Where it's mentioned, the removal of Principle 8.1 and 2 certainly wouldn't remove the option of conducting minimum rates adjustment. The Minister is not seeking to remove that option. It would simply allow a party the option of applying the wage rates expressed in a simplified manner in a case so they choose.

Moving on to just Principle 9, the minimum adult award wage clause is currently embedded in the State awards. When examining the clause, the Minister has identified several issues concerning the existing wording. One of those issues is the 40-hour week that's still contained in some awards. With regard to the rates of pay, the minimum adult award wage clause doesn't specifically account for those State awards that have the 40-hour week.

The current wording to clauses that the minimum adult award wage for fulltime employees aged 21 and more is $708.90 per week, payable on and from the commencement of the first page period only after 1 July 2017. An issue that arises is the rate of $708.90 per week is based on a 38-hour week, not a 40-hour week. So pursuant to section 10, in the Minimum Conditions of Employment Act, an employee is entitled to be paid for each hour worked, yet at a minimum weekly rate divided by 38.

As the minimum hourly rate of pay for an employee who has reached 21 years of age and is not an apprentice, is currently $18.66 an hour. An employee working a 40-hour week is entitled to receive a minimum payment of $746.40 at present, that is 40 times $18.66.

SCOTT CC: So that would be an extra two hours a week on top of the minimum weekly rate?

ENTREKIN, MR: Correct. Yes. And a similar issue arises in relation to the minimum adult apprentice wage. The minimum adult award wage currently provides that, notwithstanding provisions of this clause, an apprentice 21 years of age and more should not be paid less than $607.60 per week on - from the commencement of the first pay period on or after 1 July 2017. The minimum hourly rate of pay for an adult apprentice who has reached 21 years of age is currently $15.99 per hour which is calculated by dividing 670 - $607.6538. So an adult apprentice working 40-hour week is therefore entitled to receive the minimum payment of $639.60 at present, that is, 40 times $15.99.

So to provide greater clarity to employers and employees, the Minister recommends that the minimum adult award wage clause be amended to specifically include information on what the minimum rate of pay is for an adult employee and an adult apprentice working under an award that provides for a 40-hour week. This will help to signal to employers what the statutory minimum wage obligations are under those awards and assist with preventing underpayments.

A similar issue arises with junior rates of pay. The minimum adult award wage clause currently states that:

> "Employees under the age of 21 should be paid no less than the wage determined by applying the percentage prescribed in the junior rates provision in this award to the minimum adult award wage clause."

The difficulty with this provision that - is that in some awards the percentage that is prescribed to junior rates is set at a level which, when they're applied to the minimum adult award wage, the resulting figure is actually less than the statutory minimum rates of pay under the Minimum Conditions of Employment Act. So the Minister contends that a simple solution for that is that the minimum adult award wage clause could specifically just include a provision to clarify these junior employees should not be paid less than any applicable minimum rate of pay prescribed by the Minimum Conditions of Employment Act.

A similar statement to this effect is currently included under the provisions of the clause addressing wage rates for apprentices, trainees and junior employees - sorry, apprentices, trainees and supported wages employees, and the inclusion of such a statement for junior employees may assist employers in understanding their obligations in regard to junior employees.

SCOTT CC: Mr Entrekin, do you happen to have a list of the awards that you say suffer from the difficulties that you've raised in respect of the minimum adult award wage for the 40-hour week issue and from the junior rates?

ENTREKIN, MR: Chief Commissioner, we have a preliminary list. We haven't had a chance to actually check it off, if you like, or verify it, but a preliminary list indicates there's about 28 awards that have rates of pay that are below the statutory minimum wage. I would note that in the majority of those awards it's actually junior rates that are the problem, however there are a few that were adult rates.

EMMANUEL C: And is it only for that reason, it's limited to the issue arising because of the effect of the 40-hour week?

ENTREKIN, MR: Mostly.

SCOTT CC: But not exclusively.

ENTREKIN, MR: Not exclusively. There are - I have picked up a rate of pay that's below $708.90 for the - I think it's the Commercial Travellers and Sales Representatives Award. It's in the - yes, it's for the first nine months of the job so it - made its General Order in 2008. Generally speaking, most 38-hour week awards do have minimum rates that are at least $708.90 for adults because of that General Order in 2008 which corrected a lot of those rates that were not - were below the minimums. Most cases, it's the 40-hour week issue and the percentages in the juniors in certain awards that are the main problem with those.

SCOTT CC: Mr Entrekin, I'm not sure, but I suspect that these are not issues of principle, but issues of mechanics. Is that possible? It's - - -

ENTREKIN, MR: A little bit of both.

SCOTT CC: Yes.

ENTREKIN, MR: A little bit of both, yes.

SCOTT CC: Right.

ENTREKIN, MR: Yes.

SCOTT CC: I'm wondering whether you had an opportunity to discuss the matter with the other Section 50 parties to see if you can come to a resolution about both the Principle and the mechanics.

ENTREKIN, MR: Sure. Yes.

SCOTT CC: Because what I was going to ask you, if you would possibly be able to prepare a form of words that might assist in how that might be achieved within the State Wage process, or, once again, whether we need to do a separate process. So - and as was done in 2008 - - -

ENTREKIN, MR: Yes.

SCOTT CC: - - - in respect of those other matters, so - - -

ENTREKIN, MR: Certainly.

SCOTT CC: - - - I wonder if - because what I was going to ask you, if you would possibly be able to prepare a form of words it might assist and how that might be achieved within the State Wage process or once again whether we need to do a separate process so - and as was done in 2008 - - -

ENTREKIN, MR: Yes.

SCOTT CC: - - - in respect of those other matters. So - - -

ENTREKIN, MR: Certainly.

SCOTT CC: - - - I wonder if you might have that opportunity - - -

ENTREKIN, MR: Yes.

SCOTT CC: - - - over the next few days to see if, having thought that when you leave here that you're finished your work on this, perhaps not.

ENTREKIN, MR: Yes. No, I'm more than happy to have discussions with the other parties. I anticipated that might be the case. I will certainly endeavour to do so.

SCOTT CC: That - I think that would be very helpful to us.

ENTREKIN, MR: Certainly, yes. I guess in regard to the minimum adult wage clause is just an issue that for certain awards it just provides incorrect - in incorrect statement, if you like, and then there's the broader issue of the actual adjustment of those wages in practice - - -

SCOTT CC: Yes.

ENTREKIN, MR: - - - in the actual awards.

SCOTT CC: Well, one of the things that occurs to me is that the order that we issue each year results in an amendment to each of the awards which contains a clause dealing with the minimum wage and there is conflict between those awards which have rates of pay which might be lower than the minimum wage and unless an employer is alert to that they may end up paying the lower award rate than the minimum rate and whether we ought to do something more specific about actually updating those award rates rather than merely contain a statement within the award. So there are a range of issues there.

ENTREKIN, MR: And the Minister was certainly going to suggest that in addition to the Statement of Principles that it may - the convenient order to actually deal with that as part of the Statement, to order that those - - -

SCOTT CC: Yes.

ENTREKIN, MR: - - - rates could actually be adjusted to bring them up to the minimum conditions of employment at the rate - - -

SCOTT CC: So you might end up having collapsing all of the different rates into a total rate and removing for the minimum rates adjustment and then dealing with the 40-hour week issue and dealing with the minimum wage issue all through a process agreed between the parties.

ENTREKIN, MR: That could certainly be - - -

SCOTT CC: Yes.

ENTREKIN, MR: - - - an option, yes, as to an attempt to get an order through a General Order. Yes.

SCOTT CC: And do you think potentially through this General Order this year?

ENTREKIN, MR: Well, certainly the adjustment of rates to bring them up to minimum conditions of employment, the Minister certainly leads that it's within the power of the Commission to do so. So when the order is issued each year there's already a list of awards that the order doesn't apply to so all long service awards and (indistinct 1.03.26) awards, the conditions awards and then there's another list of awards where the State Wage Order only applies to some wages clauses within them but not all of the wages and this is because they have imported industrial agreements into the award as a Schedule.

So there's not really lists of awards that are exceptions, if you like. It may be possible just to actually list - have another standalone list where the actual rates are just listed and we - so that, well, there's a general increase of X amount, in addition the rates are brought up to the minimum as part of the State Wage Order. The Minister will be happy to identify those wage rates.

At the moment we - the Department produces 35 award summaries for the most utilised awards in calls to Wageline. So those 35 award summaries will actually have - actually do list the minimum conditions of employment which overrides the award and so we do actually have a notation under the wages clause that basically says, “Please note some of these rates are above as listed here.”

Unfortunately that’s only 35 of the awards so there are - - -

SCOTT CC: Yes.

ENTREKIN, MR: - - - some awards where we don’t have a summary. If you just looked at the award it wouldn’t tell you - - -

SCOTT CC: No, and the - - -

ENTREKIN, MR: - - - correct information.

SCOTT CC: - - - award rather than your helpful summary needs attention, it would appear.

KENNER SC: And there’s no doubt - - -

ENTREKIN, MR: Certainly.

KENNER SC: - - - there’s power, as you note in your submission. Section 58(2) of the Act clearly enables individual adjustments to be made that might be considered necessary.

ENTREKIN, MR: Yes, yes, indeed.

SCOTT CC: Well, perhaps we can - - -

ENTREKIN, MR: Yes.

SCOTT CC: - - - leave that with you, Mr Entrekin, if you could - - -

ENTREKIN, MR: Sure.

SCOTT CC: - - - corral the others and see what you can do with that.

ENTREKIN, MR: Certainly.

SCOTT CC: All right.

ENTREKIN, MR: No problem.

SCOTT CC: Now, we might take a luncheon adjournment now unless you’re only going to be a minute or two but I suspect you’ll be a little longer.

ENTREKIN, MR: I’m very close to the end. I’ll be a minute or two.

SCOTT CC: All right.

ENTREKIN, MR: Yes.

SCOTT CC: Thank you.

ENTREKIN, MR: Just moving on briefly to apprenticeships and traineeships, the Minister's written submission includes detail on apprenticeship and traineeship commencements and numbers in training. It also includes analysis of some of the factors that are influencing the uptake of training opportunities in Western Australia. The information and analysis has been provided by the Department of Training and Workforce Development and the Minister thanks the staff for providing that information.

As outlined in the Minister's submission apprenticeship and traineeship commencements have declined in recent years although the Minister is pleased to note that in the past 12 months apprenticeship commencements have stabilised. Training commencements are influenced by a diverse range of factors, a number of which are discussed in the Minister's written submissions. In conclusion the annual State Wage Order plays a vital role in maintaining a strong and sustainable safety net for employees in the State Industrial Relations jurisdiction by protecting the needs of the low-paid and maintaining a fair system of wages for West Australian workers.

As discussed in this submission the Minister supports the Commission taking a balanced and equitable approach to minimum and award wage setting. This includes consideration of all the social, economic and labour market objectives described in section 58(3) of the Industrial Relations Act including the requirement to consider the need to contribute to improve living standards to those West Australians relying on the State Minimum Wage and State Award rates of pay.

As outlined the Minister believes that granting a real wage increase in 2018 to the low paid like a $19.20 per week adjustment to minimum and award wages represents a fair, meaningful quantum that will provide an increase to minimum and award wage earners, improving their relevant economic position in the community and enhancing their standards of living.

The Minister submits that the effective date of the Stage Wage Order to adjust the two minimum wages should be 1 July 2018, workable from the first pay period on and after that date. The Minister has no further substantive information for these proceedings and the Minister reserves the right to respond to matters raised in the presentations of the other parties.

If it pleases the Commission in Court Session that concludes the Minister's primary submission.

SCOTT CC: Thank you.

MATTHEWS C: I'll ask my question of you, Mr Entrekin, and you can think about it and answer me after lunch then perhaps. We know down this end of the table that there is a desire for the minimum wage increase to be a signal so it will flow up and we have a concern from CCI that it's a signal. So let's - - -

ENTREKIN, MR: Yes.

MATTHEWS C: - - - assume that they are real things that 2.7 per cent flows through. Let's also assume - I don't think we need to assume it but if Wages Policy is stuck to, I think, for everyone above $36,000, you don't get a 2.7 per cent wage increase.

And my question for you, having gone into some detail to economic matters in your submissions, is why does the Minister say that small business is better able to pay a 2.7 per cent increase than government?

ENTREKIN, MR: I'll answer you after lunch, yes.

MATTHEWS C: Thank you.

SCOTT CC: All right. Thank you.

We'll adjourn until 2.15. Thank you.

(Luncheon Adjournment)

SCOTT SC: Thank you. Please sit down.

Now, Mr Black, I think we turn to you next.

MATTHEWS C: Not until I get an answer to my question - - -

SCOTT SC: I'm sorry, yes.

MATTHEWS C: - - - from Mr Entrekin.

SCOTT SC: We can't have your question not answered.

ENTREKIN, MR: That's fine.

Forgive me, Commissioner, it was basically to do with why is the government - - -

MATTHEWS C: Why is small business - - -

ENTREKIN, MR: Yes.

MATTHEWS C: - - - better able to manage a 2.7 per cent increase in wages than government, with some assumptions brought in in terms of signal?

ENTREKIN, MR: I think, in that regard - I mean, the first thing you'd probably say is that they're two very different groups of people. So, in that regard, the public sector employees in WA are amongst the best paid in Australia. And many of the occupational groups are the best paid. So generally speaking they're much higher income earners. Whereas the low paid - the people affected by the State Wage Order are on, or not too far above, the minimum wage.

MATTHEWS C: But not according to the signalling arguments that we get, both as a plus here and a minus from the CCI that it's going to have to load through, because someone on the higher pay - if someone on minimum wage gets 2.5, someone with the skills and experience and qualifications is not going to settle for 2.2. They want 2.7, "I'm more valuable to you".

ENTREKIN, MR: Yes. I mean I suppose in that regard the Minister's submission hasn't been developed on the grounds of specifically for a signalling purpose, or to boost aggregate demand per se. It's focussed more on the needs of the low paid and then - - -

MATTHEWS C: Well I could accept that - - -

ENTREKIN, MR: Yes.

MATTHEWS C: - - - if there wasn't pages and pages in the submission about the economy.

ENTREKIN, MR: Yes, sure. And that's, you know, something that we do every year, and that's something that the Commission requests. But, I mean, in that regard it's - you know, I mean the Minister's focussing on the objectives of the 50A - objectives in the Industrial Relations Act which really, you know, talk quite a bit about the needs of the low paid, and a fair system of wages, and conditions of employment, improving living standards, that type of thing. You know, the groups in government who are, I guess, affected by wages policy and what have you are, generally speaking, much higher paid and so they're - I mean they're in a different category if you like. They're not affected by the Stage Wage Order.

MATTHEWS C: So are you saying to me that flow on is a myth?

ENTREKIN, MR: How do you mean? What - in terms of the - - -

MATTHEWS C: Well, if you say that people at high wages will not be affected by the decision we make, inherent in that is that flow on must be a myth. That is, it doesn't flow on to people of high wages.

ENTREKIN, MR: I would say that people on higher wages are generally - I mean, their wages are determined through different mechanisms. So it's right to say that probably there isn't a great deal of flow on from the State Wage Order through to high income earners in Western Australia.

MATTHEWS C: I'm just working out - - -

ENTREKIN, MR: Because - - -

MATTHEWS C: When I say, "Higher", I mean higher - - -

ENTREKIN, MR: Yes.

MATTHEWS C: - - - than $36,000.

ENTREKIN, MR: Yes.

MATTHEWS C: Because it's at that point - - -

ENTREKIN, MR: Yes.

MATTHEWS C: - - - that $1,000 is a 2.7 per cent increase. Anyone higher than that it's less than 2.7.

ENTREKIN, MR: That's right, yes.

MATTHEWS C: So for anyone higher than that you're saying business can afford to pay 2.7 for them, but the government can't. I'm saying why are you saying that?

ENTREKIN, MR: I'm saying government - I mean the average - it's not that government can't, I mean, government 's made a deliberate budget - - -

MATTHEWS C: Okay. Then why won't government do it?

ENTREKIN, MR: Government's made a - - -

MATTHEWS C: But you're expecting small business to do it?

ENTREKIN, MR: With respect, the State Wage Case is all about the employee's remaining in the State jurisdiction which, for the most part, happen to be small business. Most of the public sector isn't affected by the State Wage Order, so the Minister's position is focussed on those people who are covered by the State Wage Order. It's not specifically designed with, signalling or all that in mind. They're two different policies and processes, I guess, and that's it.

MATTHEWS C: Thank you, Mr Black.

Sorry, Chief, I didn't mean to take over, but if that's the answer then - - -

SCOTT CC: Thank you.

Mr Black?

BLACK, MR: Thank you, Chief Commissioner.

If the Commission in Court pleases, CCI relies on its submission in reply in relation to this matter. Today we'd just like to talk more broadly and, as we are all very well aware, WA has been experiencing a contracted period of challenging economic conditions since the end of the resources investment boom over four years ago.

The difficult times facing the State were particularly acute in 2016/17. As we have seen, Gross State Product fell by 2.7 per cent with 26 year run of growth and State Final Demand fell by 7.2 per cent. There is no doubt that confidence has emerged in WA over the4 latter part of 2017. This has continued into 2018. CCIWA's quarterly Surveys of Business and Consumer Confidence reflect this.

The March 2018 Survey of Business Confidence showed that WA businesses are increasingly confident at the economy's prospects and they are the expecting economic conditions to improve over the next 12 months. 63 per cent of businesses see those conditions getting stronger. Only 7 per cent believe that the economy will worsen.

On a similar note, the March 2018 Survey of Consumer Confidence showed a growing belief in WA's economy, with consumer confidence growing to its highest level in four years. Short term confidence, however, remains subdued, but, over the coming year, 34 per cent of consumers think that the economy will improve, while only 24 per cent think it will worsen. However at the end of the day we must recognise that confidence is only a sentiment. It is a fragile thing and it can be easily shattered.

MATTHEWS C: Also coming off a low base isn't it, Mr Black, I mean - yes.

BLACK, MR: Indeed. We would therefore say that this newfound confidence requires nurturing over the new term to actually convert it into practical outcomes for the benefit of everyone. The recent State Budget for 2018/19 also reflects the term of confidence. However the Budget also confirms that the continuing challenges will remain through 2018/19 before a slow improvement to report a more positive position from 2019/20 and beyond.

As the State Government noted in its budget papers, State Final Demand in the domestic economy is yet to trot and is expected to contract for a fifth consecutive year in 2017/18 and decline again, though only marginally, in 18/19. The domestic economy is not forecast to be positive until 2019/20. Particularly the Budget and the presentation from the - Mr Christmas this morning shows that business investment will decline by another 14 per cent in 2018/19 before returning to positive territory in 2019/20.

CPI is forecast to remain at or below two per cent until 2020/'21. The Wage Price Index will continue to out play CPI through the forward estimates. Population growth is forecast to remain modest until 2019/20. Growth in working age population will remain low until 2019/20. The unemployment rate will remain at or exceed 5.5 per cent until 2021 with the government acknowledging only some modest falls in labour market spare capacity. And employment growth is forecast to strengthen by 2020/21.

In citing the strengthening of employment growth by 2021, the government notes that this will coincide with the recovery in the domestic economy. Clearly the government sees that we still have some way to go before we can confirm that recovery. Government has said that the 2018/19 budget was about creating jobs, and we agree that creating jobs is essential to recovery. And we say that this can only be done with a strong, viable and sustainable small business community.

The State is only beginning the progression from the malaise it has been in for a considerable period, and that will potentially appear in 2019/20. The return to positive growth will be at a slow and gradual pace. While we can look forward to some degree of confidence that things are getting better, and take some comfort, even at least from all the positive indicators and projections.

We must deal with the here and now, and the reality for the year in front. We must focus on the short-term and the current, and not become enamoured with the project - with the outlook. 2018/19 will still be challenging, and when again you say that this confidence must be nurtured to deliver real and sustainable results. While we can do better, optimism must be coupled with responsibility and caution, and recovery just won't happen.

We must also acknowledge that we continue to remain exposed to the vagaries and influences of the global market of growth. There are significant external factors that influence the State performance. So we must continue to look to the essential grass roots of our economy and out communities to the role they can play to materialise the confidence that we see emerging. It is what we do now that will influence the successful delivery of that confidence to achieve what those businesses and individuals are looking for.

We would firstly like just to broadly address the labour market. In March this year, unemployment reached a 16-year high at 6.9 per cent. In April that fell to 6.5 per cent. It remains almost one percentage point higher than the international unemployment rate. WA's unemployment rate on a seasonally adjusted basis, is 6.2 per cent through the 2016/17 financial year. The current financial year unemployment rate from July 17 to April 18 is 6.205 per cent.

Unemployment is unacceptably high. Youth unemployment is a particularly acute and concerning challenge. WA's youth unemployment rate has steadily increased since January 2015 and reached a 22-year high in March this year at 17.1 per cent. In April, that rate fell also to 16 per cent. The international youth unemployment rate in April was 12.5. WA's average youth unemployment rate of the last three months is 16.6 per cent.

Our employees of the future are finding it difficult to enter the workforce. Youth unemployment remains unacceptably and persistently high, and it is crucial for the future to encourage employment opportunities for 15 to 24-year-olds. Youth must be provided with pathways to employment, and it's important that every avenue is made available and accessible to encourage entry-level opportunities for youth. WA must avoid the build-up of a large pool of youth at risk of becoming long-term unemployed.

And integral to this is the care required to avoid pricing youth out of entry-level jobs. Businesses also need to be encouraged to provide opportunities for labour market entrance, not impose limitations. One critical source is the availability of apprenticeship and traineeship opportunities to enable entry to the labour market on the pathway to higher paid jobs.

Apprentices and trainees provide an essential conduit for WA's required skills of the future. They are a source of skills, key skills in so many sectors, and without the flow of skilled and trained workers entering the labour market, skill shortages will inevitably develop. The number of apprentices and trainees in training from the December Quarter 2015 to the December Quarter 2017 climbed at 18 per cent, a decline of 13 per cent for apprentices and 23 per cent for traineeships.

Equally concerning is the number of commencements in apprenticeships and traineeships, which have declined over the last three years by 23 per cent. 18 per cent in apprenticeships and 25 per cent in traineeships. The youth labour market of 15 to 24-year-olds has many dimensions. There are many who will not pursue a tertiary education, an apprenticeship or a traineeship. But they all require entry-level opportunities to the labour market.

The concentration of entry-level opportunities remains predominantly in the award-reliance service sectors, particularly accommodation, food services and retail. All these sectors - and these sectors are the sectors that are faced with the trading conditions in the State over recent years and will no doubt continue to face in the year ahead.

Considering labour market spare capacity, the underutilisation rate provides a measure of that spare capacity. In April 2018, WA's under-employment rate was 9.5 per cent, up from 9.2 per cent in March. In contrast the national rate fell from 8.4 to 8.3 per cent. Under-employment is now back to the level it was in July '17. WA's underutilisation rate is at 16 per cent in April 2018, 2.1 per cent higher than the national level. The 16 per cent underutilisation rate is back to the level it was in April 2017.

It is important to absorb the spare labour market capacity by creating more job opportunities for those who are unemployment as well as increasing the availability of additional working hours and employment options to those who are currently employed. The Reserve Bank Governor, Philip Lowe, has stated that it's important to have strong employment growth in order to start absorbing spare capacity to get to the point at which wage growth starts to pick up.

MATTHEWS C: Mr Black?

BLACK, MR: Yes?

MATTHEWS C: Has the link between increases to minimum wage, modest increases to minimum wage and unemployment queues been coupled by what the Fair Work Commission did last year, where they put the minimum wage up 3.3 per cent and in the biggest economies in Australia we've seen growth. So I don't ask you to comment on the Western Australian situation just yet, because we may be different, but is the link between modest now defined at 3.3, let's say, and unemployment queues, has that become uncoupled by what the Fair Work Commission did last year and the results following?

BLACK, MR: I don't believe it has sufficiently become uncoupled so as to say one relates to - - -

MATTHEWS C: It just seems to me there must be much bigger factors at play in terms of employment than the minimum wage and whatever single effect it has. If you can put it up 3.3 per cent, I'm presuming business were saying to the Fair Work Commission to be disastrous and the opening of floodgates. So a big unemployment queue, and it never happened, I'm just wondering whether there's much bigger factors at play.

And you might say those big factors are not in play in Western Australia because of the tenuous state of our economy, but there must be much bigger factors at play than the minimum wage.

BLACK, MR: And I would say, Commissioner, there are a lot of factors at play as well. So a rise in the minimum wage, for example, there might be an absorption effect, where the company has been - or a range of companies or an industry has been tolerant for a while and absorbed. And the result of that minimum wage has not affected the employment. It has just increased viability, shall we say. But in answer to your question, I don't believe there's been a sufficient de-coupling to be able to.

MATTHEWS C: Not upon one year's evidence, that's so.

BLACK, MR: Yes.

MATTHEWS C: Okay, thank you.

BLACK, MR: The Governor of the Reserve Bank also said the most important component is he emphasises growth and jobs. In February's Reserve Bank Statement on Monetary Policy clearly noted that despite strong employment growth, spare capacity in the labour market continues to weigh on wage growth, and significantly high unemployment and underemployment, there's ongoing spare capacity in the WA labour market. And assisted by low inflation, that low wage growth is probably to be expected for a while yet.

In the 2018/19 Budget, the WA Government acknowledges wages growth will remain subdued, consistent with those high levels of spare capacity. Creating jobs is essential. The budget has forecast an unemployment rate of 5.75 for 2017/18. So far this financial year the average annual unemployment rate is at 6.05. In the two remaining months of this financial year, the unemployment rate would need to be in the order of 4.25 per cent in order for that Budget Forecast to be realised. This would require an additional 25,000 jobs to be created. Additional jobs would then need to be added throughout 2018/19 in order to maintain the unemployment rate of 5.75 per cent that is projected over the coming year.

MATTHEWS C: Between now and the end of the year there has to be 50,000 jobs just to make the Budget Forecast?

BLACK, MR: In the next two months an additional 20,000 jobs would need to be created in order to - - -

MATTHEWS C: The next two months?

BLACK, MR: Yes.

MATTHEWS C: It would be - - -

BLACK, MR: So the task ahead, Commissioner, is that we have a significant need to generate employment in order to meet those forecast targets of 5.75 per cent.

MATTHEWS C: Yes, I understand.

EMMANUEL C: And what is forecast, is it 29,000 jobs in the next year as forecast by Treasury?

BLACK, MR: I'm pretty - - -

EMMANUEL C: That's my recollection.

BLACK, MR: I don't know the precise number, unfortunately, Commissioner.

KENNER SC: So your submission is that the budget estimate is unlikely to be hit in terms of the unemployment rate unless there's a very significant increase in jobs in the next couple of months?

BLACK, MR: The next two months, in order to reach the 5.75 - 5.75 is also projected through the whole of next year.

KENNER SC: I understand.

BLACK, MR: So we can roll that, as an expectation, over the course of the next 14 months.

MATTHEWS C: Well, it's not going to be hit when they say it's going to be hit, though, is what you're saying.

BLACK, MR: Well - - -

MATTHEWS C: Unlikely?

BLACK, MR: Well, I would hope that we materialise the confidence we've got and jobs are created. If you look at WA's participation rate, this has remained steady at 68.5 in April 2018, and the Budget Forecast participate rate in 2018/19 to be 68.4, so we are there. WA has the highest participation rate of all the States and the highest for males and females. In fact, in March '18 this year the trend for female participation rate was the highest rate since the ABS Labour Force Starter Survey began in 1978.

MATTHEWS C: We're very industrious, aren't we?

BLACK, MR: We can be. The Reserve Bank Assistant Governor, Luci Ellis, said in November last year, "The greater participation raises the level of living standards". Turning now to the Wage Price Index, private sector wages growth in WA, as measured by the Wage Price Index, has been weakening and, as we have seen over the last three years, reaching its lowest level of 1 per cent through March and June Quarters last year.

That has now increased through the second half of 2017, finishing the year at 1.5 per cent in the December Quarter, and in the March Quarter moved up to 1.6 per cent. The Wage Price Index has been at or below 2 per cent in WA since December 2014. The budget indicates an expectation for it to remain that way through 2018/19.

The trends in wage movements in national enterprise bargaining, in the Department of Jobs' Small Business Trends Enterprise Bargaining Report for the December Quarter shows that for all private sector agreements the average annualised wage increase for agreements approved in the December Quarter was 2.3 per cent. This is down from 3.5 per cent in the December Quarter of 2014. This is clearly demonstrating that restraint is being applied nationally, and this is particularly the case in WA, where the average annualised wage increase for agreements approved in the December Quarter is 1.8 per cent, a decline from 2.1 per cent in September.

Restraint is being continued to be shown by workplace participants. Employees acknowledge the significance of the current circumstances and the need for wage restraint, and this restraint is being applied for longer periods as the average term of agreements has increased to 3.2 years. As we have heard, WA remains the highest - - -

SCOTT CC: Sorry, Mr Black, there are those who would suggest that enterprise bargaining is being stifled by a whole range of factors. There's issues of spare capacity, there's also issues of the complexity of the certification process under the Fair Work Act.

But you would focus on the actual results of the bargaining, as opposed to whether generally within the community there are pay rises, or is it something you've taken into account separately from the enterprise bargaining results?

BLACK, MR: Restraint of the enterprise bargaining is just an indicative process taking place in workplaces in WA.

SCOTT CC: Right.

BLACK, MR: There are extreme difficulties, as we all know, with the enterprise bargaining process.

SCOTT CC: Yes.

BLACK, MR: And organisations leaving that bargaining process as well.

SCOTT CC: Yes, so the statistics, though, don't relate merely to enterprise bargaining, do they, the wage movement statistics relate to a range of considerations in normal pay rise negotiations between individuals and employers - - -

BLACK, MR: Those numbers in the report, Enterprise Bargaining Report, are the average annualised wage increase occurring over the term of the agreement - - -

SCOTT CC: Yes.

BLACK, MR: - - - as related by the - - -

SCOTT CC: Yes.

BLACK, MR: That would be indicative of the agreed increases over the period.

SCOTT CC: Thank you.

BLACK, MR: As we've heard, WA remains the highest of the States in terms of average ordinary time weekly earnings. It exceeds the national average by 11 per cent and that of the highest next State, New South Wales, by 10 per cent. You have the highest average weekly ordinary time earnings in males and females of all States. All this has occurred in an environment where the cost of living has been low. At 0.9 per cent in the March Quarter 2018, Perth CPI continues to remain significantly lower than that national CPI at 1.9. This has been the position that has existed for the last 10 quarters. Cost of living pressures have been lower in WA.

Now, I'd like to turn to talk about the small business community. While WA has faced its challenges as a whole, it has been particularly hardest for a cohort of small businesses covered by the State Industrial Relations System, principally sole traders, partnerships and trusts. Small businesses have been in the battle for over four years to manage difficult times and we would submit that you should not lose sight of who they actually are, small, unincorporated businesses.

Small business owners have significant skin in the game. They carry significant levels of personal risk, greater than other businesses. They bear that risk seven days a week. Failure brings with it, not the closure of a business, but also, and very importantly, substantial personal costs for the individuals and their families. As a result, small business owners live with significantly and disproportionately more stress. They work long hours, not only in the business itself, but also after hours. Their lot in life is a tough one, and they must be given a fighting chance to be able to recover and eventually also reap the rewards of the emerging confidence that's being shown at the moment.

We must also remember that, like any individual, a small business can only pay for what it can afford, be that the level of inventory they carry, the range of stock on their shelves, the level of investment in new or replacement equipment, and the staff they can employ. This goes on top of normal operating costs, such as rent, insurances, utilities, spares and maintenance, and so on. And we shouldn't forget that the owner also needs to get a salary for their own personal and family needs. Businesses, in turn, can only sell at prices for which there is a buyer. It is too simplistic to say that they can increase prices to cover costs. That is not always a viable option.

MATTHEWS C: It would be crazy in the current CPI environment, wouldn't it?

BLACK, MR: Indeed. And they operate in a competitive market which determines pricing. Small businesses compete for the consumer's spending dollar and is constantly being challenged, not only by other local competition, but the large national and international competitors entering the market that attract the consumer's dollars and exacerbate the pressure on small business. We note the news report from last Thursday that the local Sisters IGA in Joondalup, a family-owned business by Kate and Peter Brodie, has been forced to close its doors after nine and-a-half years, which the owners attribute to the discounted prices of larger competitors.

And it is not as simple as saying that small businesses can absorb costs, reduce their margins or reduce their profits. Large businesses have significant advantages by the nature of their size, their purchasing power and their capacity to absorb cost increases. As noted in our submission, almost 60 per cent of small businesses have a turnover of less than $200,000. This does not provide an awful lot of capacity to absorb costs, compress margins or reduce profits.

You should not expect what is not possible. We are assured that members of this Commission, my colleagues at the table, know of small businesses in their own local communities that have struggled, or they are seen struggling, as well as businesses that have ceased to exist. It's clear, everyday evidence that the practical realities exist. One can simply walk down Piccadilly Arcade in the CBD, for example, and find at least five empty retail premises.

Without doubt, there are many more examples throughout the suburbs of Perth and in WA's regions. There are, of course, businesses that can press on and are managing quite okay. A business community is a mix of fortunes, but we say that there is a need to consider the whole, not the part.

We would draw the Commission's attention to page 10 of our submission in reply, and to the data tables 1 and 2 that show business-related bankruptcies. This shows the continuing increase in WA's share of business-related bankruptcies, and we should take a moment to consider, when examining these figures, that they represent much more. Behind each number is a person and a family that has been affected. Just as we must grow employment opportunities, we can only do this with viable businesses to create them.

The WA Treasurer stated on 10 May that the government, and I quote:

> "Is determined to support small businesses, as we understand the important role they have in diversifying the economy and creating jobs."

In conclusion, as we state in our submissions, CCI supports responsible and sustainable wage growth through the State Minimum Wage and award minimum wages. In its determinations, the Commission must balance the range of statutory considerations of the State Wage Order, including to ensure a fair set of wages and conditions and to consider the capacity of employers as a whole to bear the costs of increases.

As we have submitted, the notion of fairness must ultimately be borne from two dual perspectives. From those who are the recipients of the wages and salaries, and from those who are required to fund the payment of wages and salaries. We say this notion of fairness is of paramount importance. This must be considered particularly for small businesses that comprise 34 per cent of the businesses in WA and employ between one and 19 employees.

Small businesses are critical to the economy throughout the State, especially in providing value for services and employment in regional areas. You should not ignore the impact of regional WA. There is a necessity to acknowledge the particular circumstances of small and micro unincorporated businesses, that are the cohort covered by the State system, who will be required to fund any award increases.

So too is the need to increase access to paid employment opportunities, critical to reducing spare capacity in our labour market. We cannot close opportunities or discourage employment in any way. Caution and restraint in minimum wage setting is particularly important in WA at this time. CCIWA would urge the Commission in its deliberations to consider the specific circumstances of the economy as they currently are and in the near term.

We say again that the confidence that's now emerging demands to be nurtured to fruition, forecast to eventuate in 2019/20. We say that the need to ensure a fair system of wages of conditions clearly indicates that excessive increases should not be contemplated, and any increases must be sustainable for those required to fund them.

Just as the level of the State Minimum Wage and award wages must consider not just the effect of the increase in the statutory rates, employment costs extend beyond the base of award rates of pay. And any increase in the wage bill of a business also translates to an increase in the additional payments an employer is required to pay in terms of superannuation, workers' compensation premiums, leave liabilities, penalty rates and so on.

In a labour market where significant spare capacity exists, focus should not make any significant wage adjustments so as to result in a reduction in employment opportunities or available working hours. The Productivity Commission's assessment in its 2015 Report into Workplace Relations was, and I quote:

> "That modest increases in Australia's minimum wage are unlikely to affect employment, but the large increase to minimum wages would reduce employment. How and at what rate such rates manifest will vary, depending on economic conditions and other policy settings."

We submit that our recommended increase is responsible and appropriate in an environment where WA has a low cost of living, lower than the national CPI for the last 10 quarters, the highest average ordinary time earnings by some 11 per cent, high levels of unemployment and youth unemployment, and significant spare capacity in the labour market, with a 16 per cent under-utilisation rate.

Further, WA's Wage Price Index has exceeded CPI since 2014, and since 2011/12 increases in the State Minimum Wage and minimum award wages have increased at or above the CPI, there has been real growth in disposable income. We would submit that our recommended increase continues to provide real growth in what will be a challenging year in the future.

I would like to just address the Principles, if I may?

SCOTT CC: Thank you.

BLACK, MR: In our submissions, we have indicated that we do not see a need for a change of the Principles at the moment. We acknowledge the ministerial review in the State's Industrial Relations System that has handed down its interim report, and we await its final report.

Given the nature of the proposed changes contained in those recommendations, there's going to be a fundamental shift in the status quo, shall we say, of where we are now. It was out view that it was more appropriate to wait until the outcome of that review on which we'll address these matters. The Minister in his submission has indicated, with respect to equal remuneration, that the proposal of work in section 50 that the parties need to develop Equal Remuneration Principles by consent, and we would suggest that that's appropriate way to move forward. Certainly, by consent, we believe that we can get all the parties engaged on the same page to go the same direction.

With respect to the other matters raised by the Minister with regards to the junior employees and the 40 versus 38 hours, probably this goes to the heart of one of the items in the ministerial review about the outdatedness or the fact that the State Awards haven't been attended to for a while. We would see that, subject to knowing the extent of the problem, the number of awards affected, it's difficult to comment on who, how and where, but our view would be that we should deal with this through a separate process, and - - -

SCOTT CC: Separate to the State Wage Case?

BLACK, MR: Indeed, yes. I think there is sufficient depth and interconnectedness and complexity that we should deal with it in an appropriate and effective and time effective way.

KENNER SC: Do you think it might be too rushed to deal with it in the next few weeks?

BLACK, MR: I would respectfully say that I think we need to do it right the first time round, not that we're going to do it wrong, but I think that due diligence says that we should take this process and understand its complexity, and from our point of view, representing small business, we would like to make sure that the impact of any changes are also well considered through that process.

May it please the Commission.

SCOTT CC: Thank you, Mr Black.

EMMANUEL C: I've got a question for you, Mr Black. You might have seen the Reserve Bank research discussion paper, I think Mr Twomey brought it to the attention of all the parties, and that's obviously quite recent. That was just out I think last week. My understanding is that the paper makes several findings, and, in summary, finds that award adjustments are passed on to wages, that there is no evidence award changes have an adverse effect on hours worked or on job destruction rates, and I just wondered if you wanted to comment on that?

BLACK, MR: Yes. Thanks, Commissioner.

EMMANUEL C: Obviously that's in a national context.

BLACK, MR: Yes.

EMMANUEL C: But I am conscious as well that many - certainly for the period that this paper seems to deal with, there would have been other States for which, you know, small business was included in the effect of any National Minimum Wage Order at that time.

BLACK, MR: The paper put out by Mr Bishop is a personal view. That's - and it's collated over a period of - that was pre-GFC. It was collated over a period where we had high employment, we had the mining investment boom going on. As I understand it, in reading the paper, I mean, it deals in a national context, it doesn't deal at State level. It was only collating - - -

EMMANUEL C: But wouldn't there have been an impact, for example, in Victoria, which would have been part of that system at the time? This is - - -

BLACK, MR: As I understand it, the report closes off before any movement took place on jurisdictional change with industrial relations coverage.

EMMANUEL C: Well, I don't think so. Doesn't it go until 2008?

BLACK, MR: Indeed, it does, yes. I stand corrected.

EMMANUEL C: All right.

Sorry, I interrupted you as you were saying pre-GFC and mining boom - - -

BLACK, MR: We had the mining investment boom going on at that time, and as he indicates at the back, there are some risks in terms of who he has assumed that - he has covered in terms of trainees, juniors, the impacts that may have occurred at that level. So at the conclusion of his paper, he actually does provide some caveats to the context in which he has assembled it. We would say that there is minimal attention that should be paid, given that it's a substantial period - period of time ago, and we are in a completely different industrial context now, and an economic context, following the GFC.

EMMANUEL C: Thank you, Mr Black.

BLACK, MR: Yes.

SCOTT CC: Dr Dymond.

DYMOND, DR: Thank you. May it please the Commission in Court Session.

The UnionsWA position on increasing award and minimum wages relies on its submission - initial submissions and submissions in reply to make its main points, namely that we are making a claim to increase the statutory minimum wage by $50 a week, or by 6.2 per cent, whichever is greater. For our claim, this should mean that the lower award rates, as termed by the Metal Trades (General) Award, from C14 to C10 will be increased by $50, and it should mean that the higher rates, C9 and above, should be increased by 6.2 per cent.

So with that in mind, though, we would seek to make a few further points, and obviously to answer the Commission's questions. UnionsWA is of course contending that the Commission should make a substantial real wage increase for award-reliant workers. We would argue generally that workers in Western Australia have been - not got a fair share of WA's most recent strong economic growth, and that has been demonstrated for a number of years, over various measures of economic inequality, and in our submission we of course refer to the Gini coefficient, the persistently high gender pay gap in Western Australia, and also the proportion that the minimum wage takes up of average weekly ordinary time earnings.

With that in mind, our general point is that the WA Industrial Relations Commission should not preside over a minimum wage adjustment in the State Minimum Wage that results in either falling or a merely treading water minimum wage bite. So just as the Commission has led with maintaining a higher rate than the National Minimum Wage, so too it should take a lead in reversing the erosion of relative living standards for the low paid, and so maintain in that score a fair system of wages and conditions.

We would argue that it also has the opportunity to take the lead in increasing aggregate demand in the WA economy, and arresting both the drag on growth inequality that's causing our State, and, of course, as we heard this morning from the Treasury witness, to assist in sort of - in our economic recovery.

Now, as part of our submission, we put - we quoted extensively from the Australian Council of Trade Unions submission in the national case, specifically regarding ILO conventions on wage fixing that, of course, deal with consideration being given to two factors when considering minimum wages, that's the needs of workers and their families, taking into account the general level of wages in the country, cost of living, social security, benefits, and relative living standards, and also economic factors, including the requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a higher level of employment.

Now, both us - both UnionsWA and the ACTU go on to argue that social interests and economic interests need not be at odds with one another when it comes to the minimum wage. The growing body of empirical research studying the employment effects of minimum wages, and new economic schools regarding the economic risks of inequality and other prominent schools of economic thought provide sound support for moving away from a position whereby deciding a fair and relevant minimum wage necessarily involves a contest between social versus economic considerations, and it moves towards a position where we regard an assessment as fundamentally being about common good.

By the common good, we can certainly illustrate that by the Reserve Bank's many recent statements about the need for wage growth, this is not wage growth - they are not favouring wage growth simply for wage earners, but they are favouring wage growth for the good of the economy generally. And to that end, that's why the Federal and State budgets have both forecast wage growth. Once again, in order to ensure, in the words - in the recent words of the Reserve Bank Governor, Philip Lowe, that sustained low wage growth diminishes the shared sense - the sense of shared prosperity that we have in Australia. Basically, low wage growth acts against the common good.

Now, in the argument about how labour markets actually work, what you've - what the research and what empirical evidence definitely suggests is that wage growth just does not happen by itself. One of the things that UnionsWA has sought to do is set out a decision - a situation that we feel describes more accurately how the labour market works, and that's what's called a monopsony labour market, in which one or a few firms will dominate the markets for goods and services and for labour.

So, for example, the Chamber of Commerce and Industry in its reply submission, paragraph 119, argues that it would be fanciful to consider that the sole trader operating in Wangara could wield such market power so as to set the price for employment, as would the two business partners who own the general mechanics service business in Canning Vale, or the family operating as a trust, running a local suburban coffee shop.

MATTHEWS C: Paragraph 111 of the reply?

DYMOND, DR: So paragraph 119.

MATTHEWS C: 119?

DYMOND, DR: 119.

MATTHEWS C: Sorry, I misheard you.

DYMOND, DR: However, this situation is precisely what you would expect in a monopsony labour market. The small employers do not raise wages, even in situations of skills shortages for the - in order to acquire additional workers because they would have to raise wages for their existing staff, and operate in an environment in which their competitors are not required to raise wages.

However, referring to the quote that we put in our initial submission from Professor Alan Krueger where he says:

> "Without a minimum wage the monopsonous employer operates with vacancies. Unwilling to raise the wage, it offers to hire additional workers because it would have to pay that higher wage to existing workers as well."

Now UnionsWA contends that Australian and Western Australian labour markets are combining improved business prospects with labour shortages and low wage growth. In our initial submissions, paragraphs 5.11 to 5.15, we make the argument that you can have a situation of rising business confidence, emerging skills shortages, yet slack in the labour market and low wage growth, and this is an environment in which a strong minimum wage rise is needed for wage growth.

The increased work proposed by UnionsWA will serve the common good, both in social and economic requirements. In the words of Alan Krueger:

> "Employers will be able to fill their vacancies without having to worry about having to increase everybody else's wages, because that was already required by the minimum wage."

MATTHEWS C: Let me understand this, Dr Dymond. Insofar as we may need to have regard to the capacity of employers as a whole to bear the cost of increased wages, salaries allowances and other remuneration and as directed by Section 50A(3)(d), do you say that employers have capacity to pay a $50 a week wage increase to the minimum wage?

DYMOND, DR: They should be able to pay a $50 a week increase to the minimum wage. I cannot obviously speak to each individual employer, but - - -

MATTHEWS C: No, on a whole - - -

DYMOND, DR: Yes.

MATTHEWS C: - - - are you saying the small business - because when we talk about the capacity of employers, I think we've got to recognise, and it's main small business who our decision is going to affect, and especially in retail, accommodation, hospitality - are you saying that whilst not all individual employers will have the capacity, on the whole the economic circumstances are such that there is capacity to pay a $50 a week - - -

DYMOND, DR: In the situation where most of the employers that we're talking about are operating in these sorts of discretionary spending-type areas, in areas where there's accommodation, food services, hospitality, et cetera, et cetera, clearly we can see from the presentation from the Treasury witness earlier today that discretionary spending - spending on non-essentials is very, very low. And there's not a lot of spare capacity there. So the interests of employers, small employers, medium-size employers, is in being able to pay an increase in wages is inseparable from the fact that the people of - to whom the wages are paid are able to go out and spend.

SCOTT CC: But that assumes they're going to spend in their sort of business.

DYMOND, DR: It can. One of the reasons that we're assuming is precisely because the level of discretionary spending is so low. There's obviously a lot of spare capacity - to use that term - spare capacity to actually spend in non-essential areas and to spend more in the discretionary areas of household consumption than there is now. And the shortfall is caused by a lack of wages and a lack of wage growth.

KENNER SC: It also assumes that those individuals in receipt of that minimum wage increase will be perfect consumers rather than, perhaps, partial savers who do other things with that discretionary income, a la holidays.

DYMOND, DR: It need not. For a start what we're also assuming - we are assuming that we're talking about people who are employ - they're income earners at the lower end to begin with.

KENNER SC: Yes.

DYMOND, DR: We know that they have a stronger marginal propensity to consume. This is set out in - - -

KENNER SC: Housing utilities, yes. It's in WACOSS's submission and (indistinct 3.04.06).

DYMOND, DR: Yes. So that's what we're talking about. A similar argument, of course, is made for an increase of the Newstart Allowance is also made - is also a - that's the same sort of argument that could be made for minimum wage workers as well. Certainly with low income earners, people who are not currently in a position where they're getting very high way increase - wage increases, or, indeed, any increases at all, and given the fact that the actually recorded levels of discretionary spending for households is so very, very low in Western Australia at the moment, we would argue that there is a substantial argument to say that sort of a substantial increase in the minimum wage will lift discretionary spending.

KENNER SC: Thank you.

MATTHEWS C: Do you associate yourself merely with what the ACTU is saying to the Fair Work Commission?

DYMOND, DR: I - yes.

MATTHEWS C: The ACTU is after a $50 a week increase - - -

DYMOND, DR: That is correct, yes.

MATTHEWS C: Also before the Fair Work Commission.

DYMOND, DR: Yes.

MATTHEWS C: Now, obviously I don't know what the ACTU is saying, but presumably they are saying things are good for corporate Australia at the moment, banks are making mega profits, mining companies are making good profits, all across the board, profits are up.

DYMOND, DR: They could - they will be saying something like that, in addition to a - - -

MATTHEWS C: How can you associate yourself with the same real increase, raw increase, given the difference between our employers and the employers the ACTU is talking about?

DYMOND, DR: Because the aspect of the ACTU's submission I am associating myself with is their section on the stimulatory effects of a minimum wage increase. Certainly - if I could finish, certainly that - certainly, depending on the size and reach of the State Minimum - of the State Industrial Relations Commission, you could - you can make the argument that the stimulatory effect would be smaller overall, particularly if it's in Western Australia as opposed to national, but the stimulatory effect is nevertheless, we would argue, real, and it doesn't depend on whether the minimum wage increase is necessarily coming from a big corporation or a medium or small sized business.

MATTHEWS C: No, I understand the argument at that level of theory, but what I said to you, and I was careful in the crafting of the question, is presumably the ACTU is saying to the Fair Work Commission business can afford it.

DYMOND, DR: There's been - - -

MATTHEWS C: Because they're making big profits.

DYMOND, DR: And we have - and we've - - -

MATTHEWS C: And we are being told here: business can't afford it. A $50 a week increase.

DYMOND, DR: Yes.

MATTHEWS C: Business can't afford it, and you say, "Well, despite that, I've got an argument about the stimulatory effect of a wage increase". There must be a difference between your argument and the ACTU, given that you cannot point to large corporate profits here of employers to make an argument they can clearly afford it.

DYMOND, DR: My argument doesn't necessarily rely on large corporate profits, and nor, for that matter, does the ACTU's rely simply on the existence of large corporate profits.

MATTHEWS C: No, but that's why I am asking you what it is about.

DYMOND, DR: Yes. What we have, and if I - well, perhaps if I direct you to part of the - part of our initial submission where we deal with the wage cost issue.

MATTHEWS C: Do I have here anywhere what the ACTU says about corporate profit? Because if the ACTU says something about corporate profit, therefore give us $50 a week, and you can't point to small business profit, then there must be a de-coupling between your $50 and their $50.

DYMOND, DR: Well, no, I wouldn't actually agree with that.

MATTHEWS C: Okay. Well, tell me why I'm wrong?

DYMOND, DR: Okay. I - the point I think you're say - the ACTU's argument is - does not solely rely on corporate profits. I don't - - -

MATTHEWS C: Not saying "Solely". I'm not saying "Solely".

DYMOND, DR: Yes.

MATTHEWS C: What does it rely on?

DYMOND, DR: I don't - I think you can make the argument about business costs, and the growth of business costs that is independent on this or that particular profit rate. And one of the reasons I was referring to my initial submission, just to - simply trying to find the relevant section here, so I'm talking about section 12, page 25.

MATTHEWS C: Yes, the capacity of employers to hold up their cost of increased wages?

DYMOND, DR: Yes, indeed. So that was - so the point we were making about average earnings per hour in the national accounts, and, indeed, the earnings of the - the labour costs per hour being sort of - being - having a look here, but I will just read this out, perhaps, for the purpose of that. So:

> "Growth in average earnings per hour has been weaker than in the Wage Price Index over recent years, in both goods-related industries such as construction, as well as in the household services sector."

So:

> "Within construction, this may reflect the slowing demand for construction workers. Broader compositional changes in the labour market appear to also be weighing on the average earnings and national accounts."

So, essentially, employment growth has been strongest in those occupations with below average rates of pay. So our argument is that when you look at the labour costs in those terms, average earnings, and average earnings per hour, that is a demonstration that employers are - taken as a whole are in a position to bear the costs of increased wages. Now, you can sort of move up and down the spectrum, if you like, between the larger employers and the smaller employers, but the argument can be - - -

MATTHEWS C: We have to.

DYMOND, DR: Yes, I appreciate that's - I appreciate the point you're making, but we would say that nevertheless you can consider the point that - consider the point that capacity to pay is not restricted to simply the smaller employer. There's - not restricted to the larger employers, but the smaller employers also operate within that cost.

And insofar as smaller employers might have particular pressures, part of their pressures as well is their inability to wage - to raise wages, particularly sort of on their own, responding to skill shortages, responding to the need to - sort of for people to travel long distances to come and take up work, et cetera, et cetera, raising wages by themselves in this - in the context where their competitors are not raising wages.

Which is why we argue that a step like a minimum wage, or a step like a minimum wage increase that raises wages that are paid by businesses more broadly is to be a - is a better way of doing this for employers, because they will then - everybody gets to raise their wages, it will be the stimulatory effect, and also, sort of, it will add to wage growth generally.

MATTHEWS C: I just wish, I suppose, Dr Dymond, that there would be a recognition that there might be a difference between what the ACTU says to the Fair Work Commission, and what UnionsWA might say to this Commission.

It might be, "Hey, for corporate Australia, 50 bucks is worth a go, but we've got to recognise there's differences in Western Australia, and how about we aim for 40", or something like that. Because I think there's a real difference between what the ACTU is submitting in terms of the circumstances in which they are submitting it, and what UnionsWA is submitting to us and our circumstances, and I have not yet been convinced that your association with the ACTU is well-founded.

DYMOND, DR: Okay. Well, our point would be, though, that the - in the context of higher award wages, that the - that the amounts that the - that UnionsWA is requesting for an increase in the State Minimum Wage is nevertheless proportionally lower than what it does in the national - in the national wage, so a 50 - for a $50 a week increase is in the WA context actually more modest than a national - than the $50 a week in the national context. But if I might resume?

MATTHEWS C: I've run out of steam.

DYMOND, DR: Okay. Well, look, to basically conclude the points that I was making, the UnionsWA argues that - our arguments about increasing the minimum wage rates and award rates, plus, of course, thinking about the need to increase wage growth, do serve the balanced and equitable approach asked for by the Minister's submission, and to that extent, UnionsWA also calls attention to, of course, the research paper that's been released by the Reserve Bank.

And acknowledging while of course it's not an RBA view as such, being a research paper, it's nevertheless worth considering as a specific Australian study, as there have been very few of those on the impact of the minimum wage, one that looks specifically through the system of wage setting through awards, and as UnionsWA points out in its reply submission, not only did the report find strong evidence that award adjustments are passed on to wages, it also found no evidence that award changes between 1998 and 2008 had had an adverse effect on hours worked.

Indeed, it found evidence that jobs with larger award rate rises had larger increases in hours and hours worked than jobs experienced in a smaller wage rise. And the research paper provides evidence for the most recent scholarship on the minimum wage, starting with what the author calls the seminal contribution of Card and Kreuger in 1994, Minimum Wages and Employment, a study of the fast food industry in New Jersey and Pennsylvania, mainly that increases in the minimum wage would increase employment in a monopsony labour market.

Now, being a research paper, the author naturally includes caveats such as the results may not necessarily generalise to large, unanticipated changes in award wages. However, minimum wage increases in both the Australian and West Australian system are far from unanticipated. It happens at the same time every year. And, as to whether the increase is large - I guess this was reiterated in the point we just discussed - I take the opportunity to call attention to the structure of the increase opposed by UnionsWA, which you can certainly see at paragraph 2.3 of our initial submission. The proposed increase is about $50 a week. It diminishes as a percentage of award rates from C14 to the C10 level, and becomes stable from the C10 period onwards.

We would argue that this claim is essentially moderate and that's demonstrated by the submissions from members of the public by Patricia Carmichael, and those members of the public who did not want to be named. While UnionsWA is not necessarily in agreement with the specifics of these submissions, they do indicate a general perception out there in the community that wages and wage growth are too low.

As public submission number 2 points out, the minimum wage is too low by contemporary standards, and you can add that to the considerations in section 50A, the context of living standards generally prevailing in the community, and they echo in that sense the comment made by the Reserve Bank Governor about low wage growth diminishing Australia's shared sense of prosperity. These submissions demonstrate that there is concern and a desire out in the community for much stronger wage growth than we currently have, and the minimum wage should make its contribution to that growth.

Turning to the submission by the WA Council of Social Services, WACOSS, I don't wish to pre-empt the WACOSS oral submissions, so I'll restrict myself to pointing out what might be a piece of information that could be considered a canary in the coal mine, that is an early indication of wage growth not just impacting - low wage growth, I should say, not just impacting discretionary spending, but also spending on essentials. Specifically, their information on residential electricity connections, or disconnections, which saw a dramatic increase in 2016/17. So that was from 9,774 for 2015/16 to 15,135 in 2016/17.

The situation is also reflected in the cost of living 2017 report provided by WACOSS, which points out through its financial counselling data, which starts on their page 53, that those households who saw the financial counsellors with wages-only income have higher levels of debt than those with Centrelink-only income. And lower income households faced with low wage growth may turn to payday loans and other fringe financial lending to help resolve any short-term financial problems, only to result in increasing levels of longer-term financial stress.

So the findings of disconnection and debt go to the quality of life, and also the ability of households to spend and actually improve their lives. And to that extent, I will refer once again to - and in this case, we can refer to the Minister's economic outlook, attachment A, which points to, once again, the modest expansions of household consumption, only 1.3 per cent in 2017, slightly lower than the 1.4 per cent in 2016. UnionsWA would propose that the social interest served by a minimum wage increase would also serve the broader economic interests of Western Australia, a substantial increase that serves to raise living standards rather than match living costs, just match living costs, and serve the role of increasing need for discretionary spending.

And that takes us to the submission of the WA Hotels Association, Hotels and Hospitality Association, or the AHA, who are calling for an increase of 1 per cent in the State Minimum Wage. Lifting discretionary spending of households would not be well served by this increase. It would be inadequate from the point of view of looking back to CPI in 2017/18 and looking forward to CPI in 2018/19. So that's a plus 1 per cent and plus 1.5 per cent respectively. Not only would a simple 1 per cent increase not contribute to improved living standards for employees, as required by the act, we would argue that it would do the opposite.

The AHA submission in their para 13 makes the argument that the vast majority of employees in the hospitality industry in Western Australia are not covered by the WA Industrial Relations system, and continue to enjoy not only lower minimum hourly rates, but the ongoing benefit of reduced penalty rates. The AHA seeks to make this out as a disadvantage of the State system hospitality employers. However, in terms of labour supply, it could just as easily be argued as an advantage, given that potential experienced staff would be looking favourably upon a relatively higher-paying employer.

At any rate, the AHA does not provide much evidence that the burden of being in the State Industrial Relations system is so great that employers have sought to restructure themselves out of it, nor has there been really much evidence in other Wage Cases, previous Wage Cases, that this is how businesses have actually operated.

The AHA has also argued that the decline in regional tourism spending in Western Australia has negatively affected hospitality businesses in regional areas. However, of course, the WACOSS submission makes the point, at their 3.4, that the cost of living in regional areas as well needs to be taken into account in minimum wage decisions.

They show that the northern regional areas of WA can also face significantly higher costs, such as a cup of take-away coffee, median rent of a house, litre of unleaded petrol, cinema or international release movie, et cetera, et cetera. So certainly, in terms of regional living costs in Western Australia, setting a minimum wage takes account of those, is certainly going to be important, once again, to lifting the levels of discretionary spending on which they rely.

Looking at the submission by the Chamber of Commerce and Industry, the CCI, the Chamber, of course, has urged the WA Industrial Relations Commission to consider the state of the Western Australian economy and the labour market, both at present and over a short-term period, and adopt a responsible and sustainable approach and award an increase in the State Minimum Wage and award wages of no more than 1.2 per cent.

UnionsWA argues that the CCI claim would not meet the needs of the low paid or improve living standards. In arguing for this increase, this not very adequate increase in our view, the CCI states a number of justifications. For example, the low cost of living in WA compared to other States. Both UnionsWA and WACOSS submissions have shown that living costs are not just a comparison between States, they are also a comparison between people living within Western Australia.

UnionsWA has, for example, cited increases in State taxes and charges for the recent State budget that can aggregate to an increase of about 4.8 per cent, certainly larger than what the government, either the government or the CCI are asking for in terms of a wage increase. And WACOSS has pointed out aspects of low income life, such as food and energy security. These are the issues that the WA Commission should be attention to when considering living costs and the WA minimum wage.

CCI has argued that WA has the highest average weekly ordinary retirement earnings. Indeed, it does, and it manages to combine that with a diminishing relative position for low-wage workers. That's why, going right back to UnionsWA's initial submission, paragraph 6.2, where we have a table that points to the growing gap between the WA minimum wage and average weekly earnings. That is exactly what the WA Commission should consider when seeking to ensure that West Australians have a system of fair wages and conditions and fair wage standards generally.

The claim is that WA has the highest State Minimum Wage compared to the rest of the country, but as the Minister has already pointed out, not all wage rates in the State Industrial Relations system are necessarily higher than those of the national system, particularly during the - particularly including in the hospitality industry. And then making assumptions that the employees in the State jurisdiction are at a financial disadvantage compared to their Federal counterparts, it is often not the case, as wage differentials will often vary.

The Chamber of Commerce has also cited declining from activity, both labour and multi-factor productivity. I should say in previous wages cases the CCI's tended to discount productivity within the State Industrial Relations system has been far too difficult to measure to be a reliable guide. It is also the case, as both UnionsWA and the ACTU have argued in their respective wage increases, that productivity growth and wages growth have been coupled for a long time in Western Australia.

And to that end, I'd like to table a chart from the ACTU's national wage case, which illustrates this point. It's page 34 in that submission. So I think I've got enough copies. I won't spend too much time on it except to point out that as the descriptive paragraph says at page 72, in all cases the labour productivity increases indexes have grown faster than wage measures.

And even with a different starting data for the index, the results would be very similar. So there is an issue, certainly between productivity and wage increases in Australia, but the issue is that productivity has been growing, leaving aside what it may be doing in sort of particular quarters, it's overall been growing, but wages have not kept up. Nor have workers, we would argue, got their fair share.

MATTHEWS C: Is that measuring the productivity of workers, or the productivity of the business?

DYMOND, DR: This is - yes, you'll see that there's real unit - like, you'll see that there are some real unit labour costs, GDP per hour worked, gross value added - - -

MATTHEWS C: The people are - I'm just making sure that it's taking into account, you know, these driverless haul packs up north and this kind of stuff. And it's people, is it, the red one - red line for instance would be people?

DYMOND, DR: GPD per hour worked, yes.

MATTHEWS C: The Gross Domestic Product wouldn't have a whole lot of robotic inputs.

DYMOND, DR: Robotic inputs, but the robot can only do so much if there's no actual workers to operate it.

MATTHEWS C: So it's a thing that I really - you've got person operating two of them. I mean, is the movement, the union movement currently doing enough work on productivity to produce wage growth? It was very easy for 20 years when enterprise bargaining came in, you gave up an extra public holiday and you - about the 0.25 per cent. And over time all those programs got done. And is there work being done by the movement on increasing where labour can increase productivity to get wage increases?

DYMOND, DR: The unit movement would argue that union members have done plenty to increase productivity. Labour productivity has grown far, far more and far, far consistently than multi-factor productivity, and other elements to do with the productivity of capital.

MATTHEWS C: And how much you have to bargain when those arguments aren't made any more?

DYMOND, DR: Well, one of the issues with productivity bargaining is that essentially for the most part, employers, be they government or in the private sector, haven't really known what productivity is. And they haven't really understood it. Most of the time they think productivity is essentially an increase in hours worked. Most of the time they really haven't had any kind of idea of how to measure productivity.

For a few years Telstra used to do productivity surveys of CEOs in Australia. And their results were very interesting, because what they would tend to find is that our CEOs, you see productivity in your organisation as very important, yes, definitely, definitely. So do you measure productivity in your organisation? No. And really what you found was that productivity was sort of the ineffable in pursuit of the indefinable for most of the time. People talked about it a lot. You know, if I had my time over again, I'd become a consultant who would talk a lot about productivity. But very few people had any idea on really how to measure it in a lot of sectors.

If you look at it - if you got to an academic journal that wants to describe productivity, for very simple students and all that sort of stuff, the common thing is the imaginary factory that produces widgets. And you can say, so we produce five widgets an hour and then we produce six widgets an hour, and that's our increase in productivity. There's a reason why they do that, it's because a lot of the expanding areas in the service department, it's extremely difficult to measure productivity.

And as productivity became increasingly tied to wages growth, it was almost impossible to actually define what it was, the break between productivity and wages growth became almost inevitable. Now, I don't want to spend too much more time, because I could move into a whole separate discussion about the - - -

MATTHEWS C: Yes, mine's - - -

DYMOND, DR: - - - rules around the workers.

MATTHEWS C: - - - a thought bubble that I ask you to take on board.

DYMOND, DR: Yes.

MATTHEWS C: I mean, the public sector, for instance, this Commission hasn't had unions coming down saying, “Don't worry about the State Wages Policy, because we will improve productivity by 5 per cent”. We just don't get those arguments any more, and - - -

DYMOND, DR: A part of the issue is that there’s often no agreed criteria for what constitutes a productivity increase.

MATTHEWS C: Yes, and you come here and you ask the other trader to work out what it is.

SCOTT CC: Dr Dymond, can I divert you back to this figure 13 from the ACTU submission? I’m trying to work-out how I should read this, and there’s a couple of things that I note here and I’d welcome your comment on. The light blue dotted line, average weekly ordinary time earnings real index. The grey line of median fulltime weekly earnings, real index. Real unit labour cost index. They’ve all been increased - I’m sorry, National Minimum Wage real index, they’ve all been increasing. But real unit labour cost has declined.

DYMOND, DR: Yes.

SCOTT CC: How do I read that? What does that mean? That all of those measures of pay have increased, but the measure of labour cost to the employer has declined? Is that what it means?

DYMOND, DR: That is what it means. Well, that real unit labour cost isn't necessarily the same as sort of wages as such.

SCOTT CC: I understand that, yes.

DYMOND, DR: Yes. It’s more to do with how much per hour overall it’s costing an employer.

SCOTT CC: Yes, but why would that decline?

DYMOND, DR: I would argue that real unit labour costs - the reflection of real unit labour costs is certainly to do with technological changes.

SCOTT CC: Right.

DYMOND, DR: That’s certainly the case. There’s certainly the situation of changes in work practices that may very well have impacted on that. But it’s also the case that - so a context in which wages have not in fact - real wages have not in fact been growing in a terribly dramatic way for a lot of these places.

SCOTT CC: So this is actually the reflection, what we’ve just been talking about is the reflection of increased productivity?

DYMOND, DR: This might be the - that could be the reflection of increased productivity as well. But I would say that it's also the case that it's also reflecting that people have not been capturing the increased productivity through their pay, and through their wages.

SCOTT CC: You see that was the point I was trying to come to grips with. Was that they have been, in that the average week ordinary time earning, median fulltime weekly earnings and National Minimum Wage have all increased, but national real unit labour cost has decreased. So I guess I'm trying to understand that. Other than that they all demonstrate that for each unit of labour cost there is an increased actual wage rate measured by any of those measures. That's I guess what I'm trying to come to grips with.

DYMOND, DR: Well, perhaps if I could take it on notice, Commissioner - - -

SCOTT CC: Thank you, if you - - -

DYMOND, DR: - - - to bring you back a more detailed sort of breakdown of the meanings of those particular sections, I can do that.

SCOTT CC: That would be helpful to me.

KENNER SC: Or is it the contention that - it does it in your submission, Dr Dymond, that the wage measures, that is AWOTE and the median full-time earnings et cetera will correlate with the green productivity line?

DYMOND, DR: That is what I was saying.

KENNER SC: In other words, the shortfall is where - - -

DYMOND, DR: Yes.

KENNER SC: - - - you're saying workers are missing out on productivity investment?

DYMOND, DR: That is correct.

KENNER SC: And at the same time, business per unit labour costs have fallen, or have remained at a low level?

DYMOND, DR: Right, and - - -

KENNER SC: Would that be one interpretation - - -

DYMOND, DR: That would be one - - -

KENNER SC: - - - of this (indistinct 3.34.51)?

DYMOND, DR: - - - and we'd go to the general point about what sort of labour cost pressure businesses have been in.

SCOTT CC: Thank you.

DYMOND, DR: Okay, I want to move through it as quickly as I can. I'll just go back to perhaps a general point, that workers who are award-reliant in Australia will lack bargaining power. And as a result, they're going to be behind when it comes to translating productivity growth into wages growth. Which is why we'd argue that the increases in the minimum wage are necessary for ensuring that wage rises occur at all, particularly if they're going to be, as I say, linked to, in some way, to productivity.

So moving along to declining working hours, record unemployment, record youth unemployment, look, in our reply submission, UnionsWA made the point similar to the Minister, that there are businesses that - there are increases, sorry, in trend employment in all the States and Territories, except the Australian Capital Territory and Tasmania. With WA having had the third highest increase. In the seasonally adjusted terms, the second highest increase.

Referring to the high levels of youth unemployment, the Minister's initial submission observes that young first-time entrants into the labour force, as are many apprentices and trainees, are particularly vulnerable to indirect competition for jobs. First of all, employers may indeed choose to utilise other older, more experienced unemployment-retrenched people, and for whom some of the key trades may already be quite experienced.

Youth vulnerability in the labour market and their lack of bargaining power is why increases to the minimum wage are important to ensure the quality of jobs that young people enter. And the quality of those jobs is inseparable from the value those jobs provide to first-time employees. Which is why regular wage rises are necessary. The disadvantage that young people experience in the labour market goes to the broader levels of economic activity and demand in the economy. UnionsWA has made the case obviously, for the stimulatory impacts of a minimum wage increase.

And for the positive impacts on the economy and employment generally. The increase in under-employment in Western Australia and Australia is linked, we would argue, to a growing issue of non-standard precarious or insecure work. So a better way of thinking about under-employment or under-utilisation is working time insecurity. Not just fewer hours of work, but also irregular hours of work. So irregular or fragmented hours in industries such as retail, hospitality or health services.

Sectors where employers have sought to enhance flexibility and reducing costs by removing or reducing or removing restrictions on working time arrangements. Workers in these areas can experience multiple short shifts, and short periods of non-pay and no paid breaks. This is not an issue that will be addressed by keeping wages low, and it will be addressed rather by looking at the power of employees within the labour market.

To that end, the significant spare capacity within the labour market, as we argued earlier, has combined will skilled shortages to mean that employers have not faced pressure to raise wages without general mandated increases. So one of those is, for example, the minimum wage increase. An increase to the minimum wage as proposed by the CCI would be inadequate. It would not meet the requirements of the Act, and would not reconcile the social or economic needs of Western Australia.

So to that end, the submission by the Minister, UnionsWA welcomes the Minister's submission, that would be an increase to the State Minimum Wage by more than the estimated CPI, namely an increase of $19.20 per week. To that end, UnionsWA agrees with the Minister that granting a real wage increase to the low paid will improve their relative economic expectation in the - position, rather, in the community.

However, the Minister's proposed increase to the State Minimum Wage is still too conservative, given the persistence of measures of inequality in Australia. For example, the Minister points out in their initial submission, paragraph 48, that regular increases for minimum award wages can play an important role in helping reduce the gender pay inequality, particularly if the State Wage Order directly affects a larger proportion of female employees than male employees.

The Minister also points out in their paragraph 74 that employees who are award-free have significantly fewer protections than those who are covered by an award. And any award for employees are reliant on the minimum rates of pay determined under the Minimum Conditions of Employment Act. Employees receiving State Minimum Wage are unquestionably low paid. And on granting the Minister's proposed increase. Now, obviously we want more than that.

The Minister's pointed out where industrial agreements are made in the State system are well-founded. Smaller unincorporated businesses and the hospitality and retail sector are more likely to be guided by State Awards. And to this end, the Minister points out that their proposed increase would improve the minimum wage bite estimating sort of a change increase from 40.7 to 41.8. However, UnionsWA obviously argues in its initial submissions, paras 6.2 and 6.3 that the decline in the minimum wage bite over the last 10 years has been far greater than this, and far greater than the redress proposed by the Minister's increase.

Given the average weekly earnings are of course likely to be increasing in Western Australia, a larger increase will be necessary. Similarly, regarding a flat dollar adjustment, UnionsWA submits that in the case that WA retains a State Award system with a series of award classifications, the WA Commission, therefore, has a responsibility to ensure that award relativities maintain their margins of skill, at the same time as addressing the needs of the low paid.

We refer to the table set out in our initial submission, section 13, in which we show that the combined flattened percentage increase awarded from last year, certainly broadly maintained relativities, but didn't fundamentally redress the compression, which we argue that our particular formulation, $50 a week, or 6.2 per cent, whichever is greater, would sort of balance the factors that the Commission needs to take into account.

So with that in mind, while the WA Government claim certainly accepts the need for an above-average increase, the relative modesty of the claim, we argue, would not meet the needs of the low paid, or contribute to improve living standards. And we've also not addressed the broader issue of where the pay increases forecast in State and Federal budgets would actually come from, given the need to lift discretionary spending by households and the WA economy.

And with that, I'll try and conclude with - set about the Statement of Principles. I think the Minister has broadly set out the history of the Principles, and how we got to the point where we are. UnionsWA has made submissions to the Ministerial Review of the State Industrial Relations System, arguing of course that there should be an equal remuneration provision in the WA Industrial Relations Act.

And we would certainly support the WA Industrial Relations Commission developing an Equal Remuneration Principle to be incorporated within the current State Wage Principles to assist parties in bringing or responding to applications. Insofar as it's open to the WA Commission to develop an equal enumeration Principle by its own General Order, we'd certainly be accepting of that. In terms of what it would look like, UnionsWA of course persuade that the Queensland Equal Remuneration Principle would be a useful one to start with. And we'd certainly have similar awarding to be incorporated in the WA Principles.

Further to the Principles, UnionsWA are certainly prepared to work with the other Section 50 parties on matters arising from Principle 8 of the table of minimum wage adjustments, and Principle 9, the minimum adult award wage. Specifically we certainly have no issues with the deletion of Principles 8.1 and 8.2, and possibly 8.3.

And certainly on the question of the minimum adult award wage, bearing in mind, of course, it seeks the outcomes of specifics, we think it would be generally of steps that simplify and perhaps, I think the phrase goes, having a Principle about the minimum award wage, rather than the minimum adult award wage, would better encapsulate that it addresses wage rates for juniors, apprentices, trainees and supported wage employees.

Now, similarly on the question of award updating generally, UnionsWA has put to the review, and they can certainly put to the Commission, that the principal reason we would see for having a form of award updating would be to ensure that those awards for employees identified by the review, and we included the reviews list in our submission in reply, to make sure that they are covered by State Awards, to make sure that they have award coverage.

So our suggestion would be that a more targeted and cost-effective approach, that certainly seems to within the power of section 40B for the Commission, would be to adjust the scope and respondency causes of existing awards to ensure that those people who are currently award free are moved under the awards of their relevant sections.

It seems to us that this, if we're looking in terms of what should be a priority, what should be done sort of as soon as we can, what should be fixed, what we think is an immediate sort of issue, which is the award free nature of certain classes of employees, this would be the most straightforward way of doing it that would be sort of the least resource intensive, if you like, for the parties.

So on that point, that concludes the UnionsWA presentation. Thank you very much.

SCOTT CC: Thank you, Dr Dymond.

Now, Mr Twomey, last but not least.

TWOMEY, MR: Thank you, if it pleases the Commission in Court Session.

I'm speaking on behalf of the Western Australia Council of Social Service. I'll give a very brief overview of the key points of our submission and respond to a few comments on the discussion today. I would like to start by acknowledging country. **(At this point, Mr Twomey speaks the acknowledgement in the Noongar language.)**

As they key body for the Community Services sector with a mission to support, assist and advocate for disadvantaged and vulnerable people, WACOSS has sought to focus in our submission and our evidence to the Commission really on those areas where we felt our knowledge, experience and are on-the-ground networks, could add value to the considerations around the minimum wages settings and how they impact on standards of living So in doing this, we have avoided providing commentary on part of the areas where we haven't felt that we've got the expertise or unique insights to contribute.

Like for instance, as CCI raised, the issues around the capacity of different industries and sectors to pay additional wages. Except in very general terms, in talking around the health of the WA economy, headlight indicators and what we've seen presented by the Minister in recent State and Federal budgets, I would like to make some very brief comments on this issue around the capacity of small business to pay and small business risk. Because I feel that we need to be thinking around it in terms of the balance between what is the wages pressure versus actually what is the buying power - what is happening within our economy that's actually contributing to the income of small business.

And I would argue that what we've actually seen happen in Western Australia over the boom period, which has hung on beyond it, has been a hollowing out of our economy. So that we've had growth in inequality, we've had an increase in spending power at the top end which hasn't been translating back down into what we've been seeing in kind of local consumption. And you can see that coming through very clearly in both discretionary consumption and also in what's happening essentially. So I guess I would say that we need to be having some consideration to what is that stimulatory aspect within the economy.

And perhaps also reflecting on Australia's experience through the Global Financial Crisis around focus and the successes of the stimulus impact, which was particularly focused on pump-ironing the economy by focusing on the spending power of those on lower incomes. So I'd say that that's an important issue to consider. So in particular we've also focused on some of those areas where we can bring some insights and expertise.

So that's gone around the data that we've got and feedback from frontline services and then the work we've been dealing on poverty, inequality and the costs of living. We have also provided some commentary of the sustainability capacity to pay within our own sector. And I'd highlight a few key things in there that we have a very highly gendered workforce including a very high reliance on award wages. We're in the top four industries reliant on award wages and that's at about 30 per cent for us.

But also the scale of employment in our sector is comparable to the agricultural and construction industries in WA. 58 per cent of expenditure within our sector is on wages alone, that accounts for $6.7 billion into the WA economy. And it's interesting that 47 per cent of the resource that goes into that is public funding which also means that we play an important countercyclical role in balancing out the economy.

We do also note that the health and social services sector is one of the fastest growing areas in employment and particular, as was mentioned earlier, demand around the age and disability services area with projections from the - sorry, I've forgotten the name. But the projections basically suggesting a doubling or even tripling of employment in that sector over the next decade or so, and particularly aged/disability services driving that.

But there are also some key viability challenges with our sector at the moment. And in particular we've seen some challenges of the gap between equal remuneration obligations and the lack of indexation and wage growth that's been happening within our sector. And this has particularly been biting on areas where you've got our afterhours crisis and 24/7 services. And we have had a problem there in particular with a whole pile of these National Partnership Agreements which have been continually rolled over. So there hasn't been the opportunity to renegotiate contracts there and we haven't seen any contribution from the State around those ERO obligations.

So one of the things I guess that I'd particularly like to highlight is that we're also concerned within our sector and overall in terms of service users with the growth of insecure work, uncertain hours and precarious employment. And so on balance, taking that into consideration within our sector and within the people who rely on our services, we've come to the considered opinion that it is in the wider interests of our community and our economy to see a meaningful and moderate increase in the minimum wage.

So we consider the stimulatory impact of increased spending power of those on lower incomes will benefit the community as a whole. And we remain concerned as discussed earlier in questions, that without an increase to the minimum wage, sufficiently ahead of those living costs, our domestic economy will continue to struggle. The economic and wage growth targets we've seen in State and Federal budgets, we don't see what else is going to drive the ability to meet those.

So we do not consider that an increase on the scale of $50 a week will have significant enough an impact to have a detrimental impact around hours worked or jobs lost. We note in the RBA paper we've referred to, the scale of increases over the period they're looking at were around 4 per cent, whereas what we've been advocating is around 7 per cent.

I would also like to make some quick comments in terms of the CCI comments on this paper. I feel it's wrong to characterise it as the paper being presented is as a personal view of the research. I mean, you can see very clearly it's branded and named as the Reserve Bank. It's clearly marked as a research discussion paper. Certainly that means it's not necessarily RBA Policy but it's very clearly indicated that they're putting their name onto it. So certainly it's a not a personal view there.

It also is covering a 10-year economic cycle not simply just the boom period. So I feel that while there was a comment saying that it was a different IR context, that's not really relevant to the question of the relationship between the impact of the rise in minimum wages and hours and job destruction. So I guess I'd just like to raise those points.

SCOTT CC: I think it's generally been accepted though and we, I think, accepted last year, that everybody seems to accept that a moderate increase in rates of pay in the minimum wage will not have a detrimental affect with respect to employment.

TWOMEY, MR: Yes.

SCOTT CC: The question still comes down to what's moderate.

TWOMEY, MR: Yes, that's right. And it's a complicated question and - - -

SCOTT CC: And it's contextual.

TWOMEY, MR: - - - I've yet to hear - - -

SCOTT CC: Yes.

TWOMEY, MR: - - - anyone produce a very good answer around what's the formula, what's the modelling that gets you there. For us that consideration of an increase of $50 per week is also linked to the advocacy we've been doing around rates of income support advocating for a $75 a week increase.

Now, it's also very particularly raised, as we've also heard from UnionsWA, around that relativity and growing gap between average wages. And we certainly highlighted that in one of the graphs in our submission where you can see that that wages bite there of the minimum wage has dropped dramatically over the last decade. So we feel that it's important to be closing that gap and that in doing so that that will actually have a beneficial impact on health of our domestic economy.

So one of the things we're very much focused around was the data and research from our Costs of Living Report which models five households. One of those is of - particularly of great relevance which is the typical working family. I would note that our working family model is the one that's most relevant to the minimum wage but it's based on income, it's above the minimum wage. It's got a fulltime worker on minimum wage plus 33 per cent plus a partner who's working part time with casual loading. So the numbers there are higher than simply if you're reliant on the minimum wage.

What it does highlight in particular is the impact of a couple of things, one of which is rental affordability. And while we've seen median rental declining in recent years, this is coming off a period of very high rises. It's come down now to $350 a week but we'd note that that still represents 49 per cent of the minimum wage. And so if we have a rental stress market that's defined as around 30 per cent you would say 49 per cent is very much around extreme rental stress if you're just relying on that and you're in a minimum rental position.

And we've highlighted the lack of availability of rental properties as seen in the Anglicare research in the Perth area that are affordable to people on the minimum wage. The numbers there are very low. The other thing that we've highlighted is the data around food stress and utility hardship. And particularly then, as UnionsWA mentioned, the dramatic rise we've seen in electricity and gas disconnections over the last year coming largely off the back of the increases in household fees and charges in the last State Budget.

We've seen - that was 10.9 per cent when it came to the fixed charge of electricity last year. We've just seen another 7 per cent increase brought in the other week on the back of those. They're very - the household fees and charges overall are increasing at a rate much, much higher than CPI and much higher than what we've seen with WPI. So there is that increasing pressure.

That does remind me that I also wanted to go - in talking about the costs of living, I wanted to respond to the Chamber of Commerce and Industry comments claiming that WA has a low cost of living and the lowest in the country, noting that they were referring specifically to CPI in making those comments. And our concern is that as the ABS says CPI is not a cost of living index and it is not often considered actually to be a good measure of real living costs for real people, particularly those on the minimum wage.

So noting those inherent limitations, also noting some of the other types of data that's often pointed to like the Economic Intelligence Units, cost of living measures where they're very much geared around what are the living costs for expatriate executives and employers to consider within Perth which are very different to what are the living costs if you're looking at essential costs and you're on very low income. And I think this is very much then highlighted.

Particularly I draw your attention to figures 11 and 12 in our submission which are on pages 25 and 26. The first of those - and this is from the ABS data around financial stress indicators demonstrates that those in financial stress are increasingly spending a much higher share on housing and utilities and that's increasingly cutting into their discretionary spending.

The second of these very much highlights the deterioration in the situations being experienced by any households with financial hardship and deprivation measures. And shows that the gap in their real expenditure compared to the rest of WA households has at least doubled in the last 12 years. So again, we're seeing this growing gap in inequality and this hollowing out that's been going on here.

And in our data one of the things that was highlighted were particularly around single people and sole parent households. And we do note that when it comes to sole parent families, they're one of the groups that has - for their reliance on income support measures they have both the highest engagement with part-time work but also the highest rates are bouncing in and out of insecure work. And they're also more likely to be reliant on award wages and the minimum wage.

MATTHEWS C: Mr Twomey - - -

TWOMEY, MR: Yes.

MATTHEWS C: - - - you say in your paper that - your submission rather, that housing is the most pressing issue facing low income individuals and - - -

TWOMEY, MR: Yes.

MATTHEWS C: - - - households in Western Australia. And you talk about 350 being the median taking up 49 per cent of the State Minimum Wage. If that went up by $50, it will still take up 46 per cent.

TWOMEY, MR: Yes.

MATTHEWS C: It's got to be hard to get into home ownership off the minimum wage even if the sort of increase you seek - - -

TWOMEY, MR: Yes.

MATTHEWS C: - - - is granted. Am I being overly pessimistic in saying that when you make your submissions to us that we have to be simply realistic about what we can do about housing affordability given our powers and that the - - -

TWOMEY, MR: Well - - -

MATTHEWS C: - - - submission is more about making life easier generally without really thinking we could do anything about housing affordability?

TWOMEY, MR: Well, I'll certainly say, when it comes to the affordability of housing, those policy settings aren't in your hands to the extent that - - -

MATTHEWS C: Yes, it seems like a much - - -

TWOMEY, MR: - - - there are both market pressures - - -

MATTHEWS C: - - - much bigger issue - - -

TWOMEY, MR: - - - on the State.

MATTHEWS C: - - - than one we could tackle.

TWOMEY, MR: However, the mandating kind of issue that you have is around living standards and the affordability of people to be able to afford a basic standard of living. And so I guess, you know, we're highlighting that the adequacy of the minimum wage against basic essential living costs have been deteriorating over time. And certainly the Commission can't solve that problem alone - - -

MATTHEWS C: Depressingly.

TWOMEY, MR: - - - and - but also, you know, we spend a lot of our time advocating at the same Federal level around affordable housing, particularly about affordable rental for people on lower incomes.

And so we've had a very strong engagement, for instance, around making sure there are targets for that in the Metronet Development and that great link between affordable housing, transport and work options. So we've been doing those sort of things. But certainly when it comes to standards of living those - the affordability of housing in those essential, you know, household fees and charges and utility costs and then stuff around the cost of food are the kind of core things.

MATTHEWS C: We can still help.

TWOMEY, MR: Yes.

MATTHEWS C: Thank you.

TWOMEY, MR: And I'd suppose the other thing I'd point to is, you know, in going through beforehand and talking about discretionary and nondiscretionary spending, one of the things that we - we saw this, for instance, in the Treasury graphs is that within nondiscretionary spending they list health expenditure. Whereas the data that we've got actually shows that for single parent households they're cutting health expenditure now because it's - they no longer have to - you know, it's moved from becoming an essential thing to something they can no longer even afford.

And so I guess that just kind of highlights more that there are these very real pressures. And I guess that the issues are that the pressures are very much around those essential living costs and they impact disproportionately on those on the lowest incomes. The other thing that I wanted to highlight there was the work that we'd done around the Financial Counselling Data and this is the first time we've been able to do this sort of analysis. And I think it's the first time it's been done anywhere in Australia.

Basically what it's allowed us to do is, having access to the household budgets that the financial counsellors for whoever comes to see them that's in financial hardship and then being able to compare that to the general expenditure patterns from the ABS Household Expenditure Survey that came out last year, we can see very clearly what are the real kind of financial pressures that are most hitting those households that have led them to be in trouble.

One of the things that very much stood out there was that highlighted the housing costs for those on wages only income and for those with mortgages. And what's interesting is there it was saying for those on wages only income they had much higher housing and health expenditure and were spending over 50 per cent of their income on housing costs which is a very high number and - - -

MATTHEWS C: So help me interpret those tables.

TWOMEY, MR: Yes.

MATTHEWS C: Tell me what you're talking about.

TWOMEY, MR: So I was talking about in the second one, there's one that says "Wages Only Income".

MATTHEWS C: "Wages Only".

SCOTT CC: Which figure's that?

TWOMEY, MR: See that one there? So that should be saying - - -

KENNER SC: Is this 12 and 13 or 11 and 12? Because - because - - -

TWOMEY, MR: Hold on a sec. This is - sorry - I'm looking at the colour version but I've only printed out the latest version in black and white.

MATTHEWS C: Page 18 of your submission?

TWOMEY, MR: Yes, it should be. So basically the top table is the ABS Survey Data. And the bottom table is the Financial Counselling Data. So the ABS Survey, it does give us a range of things. We've included there, for instance, mortgagors and renters because - - -

MATTHEWS C: But it gives us a range of things which I don't yet understand so I'm asking you - - -

TWOMEY, MR: Yes, yes.

MATTHEWS C: - - - to explain what each of - - -

TWOMEY, MR: Okay.

MATTHEWS C: - - - them is.

TWOMEY, MR: Yes, sure thing. So I guess I was highlighting two things there. One is that when it comes to wages only income, so this is very clearly people who are working - - -

MATTHEWS C: Right, okay.

TWOMEY, MR: - - - and in financial hardship have come to a financial counsellor, they've got very high housing costs. And when you look at people that are, say, mortgage only they're up to 55 per cent.

MATTHEWS C: Okay.

TWOMEY, MR: So - - -

MATTHEWS C: So 50.9 per cent of persons on wages only - - -

TWOMEY, MR: No. So - - -

MATTHEWS C: No.

TWOMEY, MR: So this is - they are spending 50.9 per cent of their weekly budget of household expenditure - - -

MATTHEWS C: On housing.

TWOMEY, MR: - - - on housing costs.

MATTHEWS C: Right. Now, I've got you.

TWOMEY, MR: This is the percentage breakdown of their expenditure. And why this is particularly interesting is we saw this data last year. What we've heard more recently has - and particularly that number for people with mortgages, their spending 55 per cent. What's been interesting is we've now heard in recent weeks from the banking Royal Commission reports about mortgage setting practices where they have been using the Henderson Poverty Line or they have been using 10 to 15-year-old data around housing - around weekly living costs where they've been leaving children out of their household budgets.

So I guess what these two things together highlight for us is that there is a larger group out there, and we don't know have the data to know how large they are, of people who are working, who are on what we might consider reasonable incomes, but are actually in severe financial stress simply because of the level of the mortgages that they're paying. So this is something that's just popped up on our radar and we can't find out yet how - - -

MATTHEWS C: Okay.

TWOMEY, MR: - - - wide or - - -

MATTHEWS C: So the banks are saying - - -

TWOMEY, MR: - - - large this is.

MATTHEWS C: - - - we only lend someone money - so that's then 30 per cent of their income on mortgages. But at the other end you're finding that there's people out there on 55.2 per cent - - -

TWOMEY, MR: Yes. And - - -

MATTHEWS C: - - - or who are spending 55.2 per cent of their income on mortgages.

TWOMEY, MR: And there's two possible scenarios there. One is the scenario where you've got someone whose circumstances have changed. So they've lost a job and taken a lower paying one, they've had their hours reduced or something like that. So that's one thing that could - - -

MATTHEWS C: Yes.

TWOMEY, MR: - - - contribute to it. Or it could be that the housing costs - - -

MATTHEWS C: Yes.

TWOMEY, MR: - - - themselves is what's driven them into financial hardship.

And at the moment we're looking to, in the future, how we can learn more about that so we can actually understand the numbers and the drivers. So I think I've covered all of those things (indistinct 4.08.45) there. I did want to highlight some of those issues around inequality because I did comment earlier on the gap between the minimum and median pay levels. So kind of currently being at around 40.7 per cent. And that looking back, you know, a decade or so ago it was around 71 per cent. So there has been that dramatic change.

No, sorry. Since 2005 the AWOTE has increased by 71 per cent whereas the minimum wage has only gone up 46 per cent, that's that growing gap. Sorry, I misread that. I suppose as well in terms of that gap and the growth of inequality and that hollowing out that I was talking in the economy, one of the things that we've been very focused around has been our commitment around the new unstainable development goals around how you're closing that equality within the community.

We've committed at a national level to growing the income of the bottom 40 per cent of incomes faster than the rate of the rest of the economy. We can't see, other than increasing income support levels and increasing minimum award wage payments, how else that's actually going to happen. Because otherwise all of the drivers have been opening up that gap. So I guess I just wanted to highlight that although I don't necessarily see that's something that you're locked into.

So the other issue I did want to highlight were those relating to underemployment and particularly underemployment and gender as well. And the way that we've seen much higher rates of underemployment, underemployment growth, growth of casual part-time precarious work within WA as opposed to the rest of the Australian economy. We've seen an International trend about that. We've seen a strong national trend, but for some reason WA seems to have been even stronger in that.

And I guess the reason why I wanted to highlight that is that it poses, potentially, an additional challenge to the Commission in terms of when it comes to considering minimum wage settings, are you merely focusing on the effectiveness of the minimum wage and award wages for someone in full-time work to maintain, you know, acceptable standard of living?

Or are you actually considering what are the conditions that are generally prevalent in our community, and what responsibility do you have around those? I mean, that's a really tricky question. But the issue is if we're seeing more and more people who are bouncing in and out of work, have uncertain hours or are underemployed, then how does that relate to your responsibilities and commitments? I realise that's a difficult question.

I think I have covered most of the things that I wanted to touch on. There was the question earlier around the Equal Remuneration Principle and this is certainly something that we've indicated and put in a submission saying that we very much support that in principle. The challenge we've had around it is making sure that there is a matching commitment when it comes to State Government funding to actually fund services to be able to pay that.

But certainly particularly as a sector where three quarters or more of our workers are women and also a sector where we still see that there is some wage gender disparity, and these things are really important to us. So I guess in closing, we're focused particularly on those issues around the health of our local economy and the importance of a stimulatory impact. And so we've said that what we believe is needed is a modest but meaningful increase in the State Minimum Wage to close some of those gaps that have emerged over the last decade or so. Thank you.

SCOTT CC: Thank you, Mr Twomey.

Is there anything further this afternoon? Otherwise we will reconvene at relatively short notice as soon as the Fair Work Commission's decision has come down so that we can consider that matter.

In the interim, Mr Entrekin, you're going to liaise with the Section 50 parties and see what you can agree ought to be done in respect of the Statement of Principles. And if you would get back to us as soon as possible. I suspect some of those things are not going to be able to be done, perhaps apart from the deletion of the Principle 8 other than by separate applications of the Commission's own motion. But it would be helpful if you would advise us of those discussions.

And Dr Dymond, if you still want to go ahead and provide us with some further interpretation of the figure 13 from the ACTU submission or you're happy with - - -

DYMOND, DR: Since I provided it, yes, I certainly would.

SCOTT CC: All right. Thank you for that.

All right. Other than that I thank you for your submissions. And we'll adjourn.

Thank you.

AT 4.14 PM THE MATTER WAS ADJOURNED ACCORDINGLY